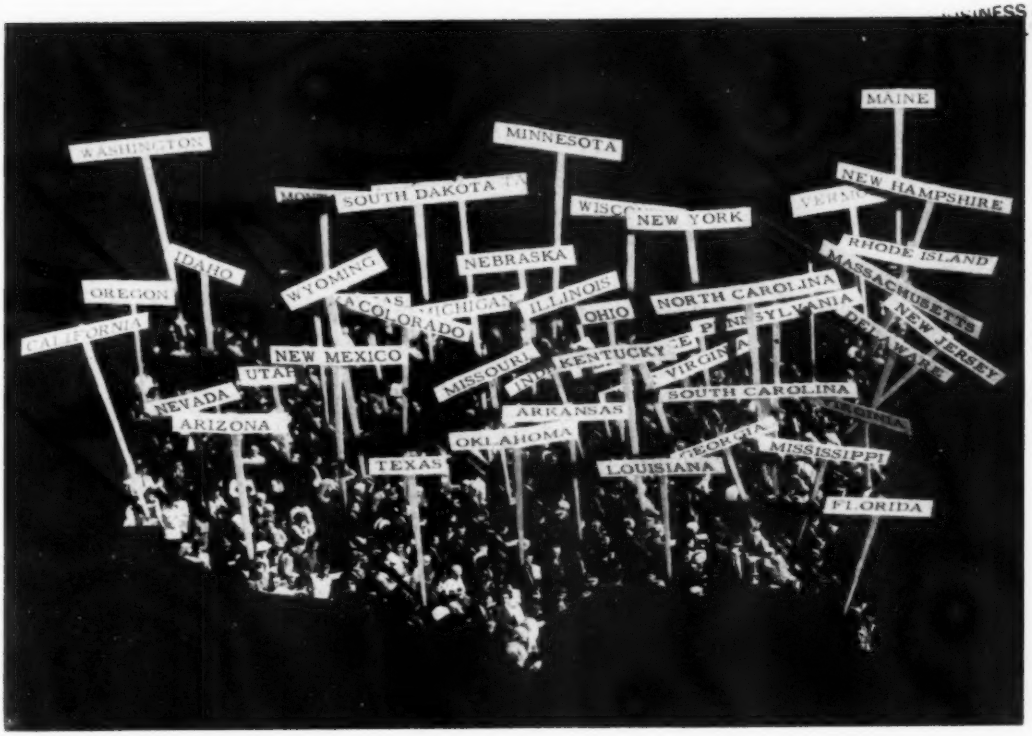
FEBRUARY 1958

The Mortgage Banker



MBA is in its [illegible] year [illegible] 2,[illegible] members with every state now represented in its roster. Outside the Continental U. S., it has members in Alaska, Canada, Cuba, El Salvador, Hawaii and Puerto Rico. Texas contributes the largest state delegation—148 members.

in this issue ------ OUR PROSPEROUS RECESSION ★ CHANGES IN MONETARY POLICY AND ITS MEANING FOR THE MARKET FOR MORTGAGE LOANS

MBA 1958 Calendar

March 6-7, Mortgage Servicing Clinic, Statler Hotel, Detroit

March 24-25, Southern Mortgage Conference, Dinkler-Andrew Jackson Hotel, Nashville

April 14-15, Eastern Mortgage Conference, Hotel Commodore, New York

April 21-22, Western Mortgage Clinic, Hotel Lassen, Wichita

May 8-9, Southwestern Mortgage Clinic, Del Coronado Hotel, San Diego

June 22-28, School of Mortgage Banking, Courses I and II, Northwestern University, Chicago

June 29-July 5, School of Mortgage Banking, Course III, Northwestern University, Chicago

July 27-August 2, School of Mortgage Banking, Course I, Stanford University, Stanford, California

August 3-9, School of Mortgage Banking, Course II, Stanford University, Stanford, California

November 3-6, 45th Annual Convention, Conrad Hilton Hotel, Chicago

IN THIS ISSUE

Gordon W. McKinley, Director of Economic and Investment Research for Prudential, originally addressed his optimistic conclusions to members of the New England Sales Management Conference in Boston. **Dr. James J. O'Leary,** Director of Economic Research for the Life Insurance Association of America, spoke at the American Finance Association's annual meeting in Philadelphia.

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PUBLISHED MONTHLY BY THE **MORTGAGE BANKERS ASSOCIATION OF AMERICA**

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THE MORTGAGE BANKER is distributed monthly to members of the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and are not necessarily those of the Association. Advertising rates on request. Subscriptions: Of the Limited, Regular and Associate dues, $4.00 is for a year's subscription to THE MORTGAGE BANKER, the official monthly publication of the Association. Separate copies 35¢. Entered as second class matter at the post office at Chicago, Illinois, under the Act of March 3, 1879.

Volume 18 **FEBRUARY, 1958** **Number 5**

Contents


TITLE
TIC
INSURANCE CORP.
do you
measure your
mortgages as
many investors do?
One of the "yardsticks" they use
in judging a mortgage is whether
or not it's insured.
Title-Insured mortgages are safer
to hold, easier to sell in today's
tight-money market.
Make your mortgages more attractive
to investors and yourself . . .
have them insured by . . .
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Georgia · Indiana · Kansas
Louisiana · Mississippi · Missouri
Nebraska · Oklahoma
Illinois (certain counties)

WHEN WILL THEY LEARN THAT RIGGED INTEREST RATES WILL NOT WORK?

Year after year, through all kinds of changing conditions, the fiction persists that so far as government-sponsored mortgage loans are concerned, their interest rates can be set at levels which someone arbitrarily believes they should be set. In almost no other area of finance are the natural consequences of supply and demand ignored—and what harm this fallacious reasoning has brought to the housing and lending fields during so many periods of the recent past! Here Mr. Nelson—as he did at MBA's SMU Conference—states the case once more for a free market.

HOW should we cope with interest rates? The answer to that one is easy. The only way I know of coping with interest rates is either to pay what the financial market demands for the funds I want, or to put off my borrowing in the hope that the market will demand less later on. The one way I am sure that I *cannot* cope with interest rates is to insist that I be given the money I want now at a rate less than the lender can get from other borrowers of equal or better credit standing.

This doesn't apply just to me. It is a general principle. Nearly everybody understands this and accepts it. Corporations understand and accept it when they go competitively into the market for funds for working capital or inventory accumulation or plant expansion. States and municipalities follow the same principle when they bargain for a price on their bond issues.

The Treasury of the United States, which offers the world's best security, also understands this. Every Tuesday it submits itself to the verdict of the market as to rate on several hundred millions of dollars worth of 90-day bills. And at less regular intervals, it does the same thing with its other obligations, carefully tailoring volume, maturity, and call date so as to get the best deal it can from the market at the particular time.

The Treasury learned to accept this principle by hard experience. During World War II, when other demands for funds were suppressed, it could command the market, and it did, forcing interest rates on its paper to an all-time low. After the war, it tried to do the same thing in order to keep interest rates from rising. But what happened? In order to keep interest rates under control, it was necessary for the Federal Reserve to manufacture enough money to buy the obligations which the market wouldn't take. The consequence of this constant increase in the money supply was a cruel inflation which cut the value of the dollar almost 40 cents in the six years between 1945 and 1951. In 1951, the Treasury, under pressure from the Federal Reserve, gave up the idea of trying to dictate what interest rate it would pay and henceforth behaved pretty much like any other contender in the market.

By **WALTER C. NELSON**

Vice President, Mortgage Bankers Association of America; President, Eberhardt Company, Minneapolis

The principle of market determination of interest rates is accepted and observed by other government credit agencies. The Public Housing Agency does so in respect to the loans it arranges for local authorities. The Federal Land Banks and the Federal Home Loan Banks do so, in respect to the debentures they issue to the public. The Commodity Credit Corporation does so in dealing with the banks. And so does FNMA. The Maritime Commission paid a market rate in the days when it was seeking tanker loans. The General Services Administration has learned that it must accept the verdict of the market if it is to carry forward its lease-purchase operations.

Of course it is also understood that artificial interest rates may be created, if someone wishes to absorb the difference between what he charges and what he has to pay for the money or what he might otherwise get for the money if he has it in hand. You may make your son-in-law a loan at 2 or 3 per cent interest in order to get a roof over your daughter's head and to keep the pair out of your own house, if you are so minded, even though you know you are losing 2 or 3 points in interest by doing so. You may even go out and borrow the money for such a purpose, if you feel desperate enough about it.

The Federal government and some state governments have gone in for projects of this sort. An example is found in the home loans to veterans made by a few of the states and by the Veterans Administration. Federal loans for college housing are another glaring example of a subsidized interest rate. So are crop loans. So are FNMA loans for special purpose housing, when all the costs of the operation are toted up. So are the loans for advance planning for public works and urban renewal, which carry no interest rate at all. But these are not primary market operations. When the state or Federal treasuries turn around to get the money to give partially away, they have to go into the market and pay what the market requires. And the treasuries all know that if they keep this up indefinitely they go broke, or must raise taxes from everyone in order to benefit a few, or, as is possible for the Federal government, go into an inflationary expansion of the money supply.

There is only one area of finance that I have been able to discover where it is assumed that the interest rate on loans made in the private market can command an interest rate predetermined on the basis of what someone thinks it ought to be, rather than of what competitive conditions in the financial market demand. This is the area of insured and guaranteed mortgages on residential property.

In this area, where the borrower must get his funds in the private market in competition with every other borrower—and where every other borrower is free to bid what he will for the money—government takes the position that it can say what the interest rate should be on the basis of some mystical conception of right and fairness that would baffle even a medieval schoolmaster. And, so far as I can see, both Congress and the Administration will continue stubbornly to hold to this position, in spite of this plain evidence that it just won't work for interest rates on mortgages any more than it will for interest rates on government bonds or on any other security offered in the market.

The reason that artificially pegged interest rates on mortgages won't work — except by the accident of their coming within the range of what the market is willing to accept—should by now be self-evident. It is evident to us who have to arrange the loans in the market. Especially over the past two years the market has certainly been making it painfully evident to us. But since it apparently isn't yet evident to our lawmakers and policy makers and administrators, it may be worthwhile to demonstrate, from the troubled history of mortgage financing over the past ten or twelve years, why mortgage interest rates operate no differently than other interest rates.

The idea that the interest rate on a privately financed mortgage will be what government says it ought to be is of fairly recent origin. Actually it goes back no farther than the end of the Second World War. I may recall to you that, back in 1934, when the insured mortgage was first invented and when FHA was first established, there was no assumption that insured mortgages would command other than a market rate of interest. The originators of FHA expected mortgage insurance would make possible lower down payments and longer maturities than theretofore had been customary or legally possible. They expected it to make possible a broader and more equable flow of mortgage money from the centers of capital surplus to the areas of capital shortage. But they never expected or desired to dictate the interest rate at which these important objectives would be accomplished.

On the contrary, the original administrators of FHA were careful to see to it that the interest rate they were required by law to set on insured mortgages was safely *above* the mar-

> *"There is only one way in which a reasonable continuity can be assured to housebuilding activity. There is only one way in which such distortions as we have experienced in the past can be avoided. There is only one way in which the demand for houses and the supply of mortgage financing can be kept in fair balance. It is a very simple way. It is the way of the free market."*

ket. In fact, in order to make sure of market acceptance at the beginning, they fudged a little by permitting an annual service charge on top of the maximum statutory interest rate. Following this example, throughout the prewar period, the interest rate on FHA mortgages remained consistently *above* what was the going rate in the market. True, FHA interest rates were reduced from time to time and the special service charge was dropped; but in taking these steps FHA always followed the market. It never preceded the market, and it never attempted to dictate to the market.

The interest rate problem was an outgrowth of the veterans benefit program. But when the loan guaranty plan was first instituted, the 4 per cent interest rate then established was a rate at which home mortgages pretty generally were being currently financed. The idea was to protect the veteran, who presumedly was unfamiliar with market conditions, from being overcharged. The idea was not to try to force the market to give the veteran a preferential rate.

> *". . . there is a temporary measure we should still be working on. That is the freeing of the FHA rate within the maximum limit now set in the Act. This step taken even at this late date might still help to speed up the enlargement of the flow of mortgage funds. It would lend the flexibility needed to meet the variety of conditions over the country. It would give at least a partial demonstration of how a free market works. . ."*

At the time that the veterans' guaranteed loan program was getting under way, interest rates had been drifting down for over a decade. In fact, the trend had become so set in people's minds that the possibility of it following any direction but down was incredible. When the incredible happened in 1952 and 1953 and the whole structure of interest rates began to move upward, something, it seemed, ought to be done to protect the veteran from their impact.

That something was to contend that the guaranty was a feature of such unique value that it should induce a willingness to offer a special interest rate to borrowers in addition to the low down payment and long maturity. Moreover, it was contended that Congress could predetermine what that special interest rate should be. The same contentions were applied to FHA insurance, so that FHA as well as VA was affected by this new approach.

The market simply found the argument unconvincing. So the long contest between market forces and political judgment began. And, as a consequence, the government sponsored systems, which originally had been looked to as a stabilizing influence in housebuilding activity, became a source of instability—and a very drastic one at that.

The record is an unhappy one. As interest rates rose from 1951 through 1953 the combined volume of FHA and VA activity (in terms of mortgages insured or guaranteed) fell 40 per cent and number of new houses started under those programs fell

from a high of 689,500 in 1950 to a low 408,600 in 1953. Over the same period, houses started under conventional financing or all-cash arrangements fell less than 1 per cent from 662,700 to 659,700.

In 1954, the generally upward trend in interest rates was temporarily reversed; and, with the customary lag of several months, the interest rate on home mortgages was also affected. For a period in 1954 and 1955, when demands for funds from other types of borrowers had abated, the FHA and VA interest rates — which had been reluctantly and belatedly increased—again came within the competitive range of the market. The FHA and especially the VA programs again became popular. The number of mortgages insured and guaranteed rose 34 per cent from 1954 through 1955, all of the increase being in VA starts. The proportion of houses started with insured and guaranteed financing again climbed—to 51 per cent; and housebuilding reached a high of 1,309,500 new private units started in 1955, topped only by the record level of 1950.

In 1955, as the whole economy surged upward in a renewed burst of expansion, great pressure again was put on the supply of investment funds. Interest rates stiffened; and, in the resumption of the upward trend, the market rate soon passed beyond the fixed rate on FHA and VA mortgages. Again the line was stubbornly held, in spite of the fall-off in activity. This time no adaptation at all was made in the VA situation. An increase in the FHA rate was made in December 1956, which was timed too late to have much effect on 1957's spring business and was insufficient anyway to restore a market balance.

Last year Congress complicated the difficulty by adding administrative control on the prices at which FHA and VA mortgages might be placed thus removing the last remaining means by which activity under these programs could be adjusted to meet market conditions. VA responded to this new restraint with a dying gasp. FHA came through with a pattern of interest rate and discount which again fell short of the acceptable range of the market.

The results of interest rate policy during the last two years are, I am sure, too familiar to need elaboration. We have seen housebuilding brought to its lowest level since 1949. And we are seeing its recovery held down at a crucial time when the difference between a good volume of housebuilding and a poor volume may spell the difference between a rather mild economic adjustment or a more serious recession.

More significant from the point of view of future policy is the course of conventional financing during these years of violent ups and downs in insured and guaranteed financing. Throughout the whole period from 1951 onward, the number of new houses started with conventional mortgage loans trended generally upward in a gradual unspectacular way. The highest rate of year-to-year increase was 6 per cent. The largest rate of decline was 8 per cent. The number of units started in 1951 was 607,900 and in 1957, 700,000. By contrast, the highest rate of year-to-year increase in FHA and VA combined starts was 43 per cent, and the deepest decline was 40 per cent. The number of new units started under these systems in 1951 was 412,200, and in 1957, 295,000.

The succession of tight money, easy money, tight money had only moderate repercussions on conventional financing. To be sure the effects were there, but they were produced without violent disruptions. By being able to compete in the market for funds, conventional financing was able to maintain a relatively even flow of funds and to give housebuilding its one element of dependability. In other words, conventional home mortgage financing coped with interest rates by paying what the market required. And the results testify to the wisdom and practicability of this course.

What of the future? During the months ahead the availability of funds for investment promises to increase. Interest rates have already eased and will fall still farther. Then, if we are as fortunate as we were during the set-backs of 1948 and '49 and 1953 and '54, business expansion will be resumed, the demands for funds will mount again, and interest rates once more will turn upward. What is to be the experience of home mortgage lending during this repetition of a now familiar pattern? Is it again to have another delayed and ultimately

exaggerated revival, to be followed by another abrupt decline?

As events now stand, there is no evidence that government has learned anything from the vicissitudes of the past decade. Even in face of a possibly serious business downturn, it has stood fearful to take the one available effective action, because of a possibly adverse political effect, hoping instead that the shift in the financial market will be rapid enough to save the day.

We also may hope this will be so, since there seems to be no other present alternative, even though this involves some risks of its own. But it certainly gives us no sound basis on which to build an efficient building industry and to meet the housing and home-financing needs of the future. It is, in short, no way in which to cope with the problem of interest rates.

There is only one way in which a reasonable continuity can be assured to housebuilding activity. There is only one way in which such distortions as we have experienced in the past can be avoided. There is only one way in which the demand for houses and the supply of mortgage financing can be kept in fair balance. It is a very simple way. It is the way of the free market.

How is a free market in mortgage financing to be achieved? Obviously, it will not be done without effort—and a great deal of effort. The principle of price control has become deeply ingrained in the political approach to the home mortgage question. The immediate task may indeed be to resist its extension rather than to accomplish its elimination, for the usual political answer to the failure of a political control is to try another form of control instead of merely admitting failure and removing the control that has done the damage.

Recognizing the gravity of the situation and the difficulties of the undertaking, we must be unremitting in our effort. We must patiently and repeatedly try to make clear to our lawmakers what has so painfully been made clear to ourselves. We must not miss an occasion to do this. And we must have a step-by-step program of action to bring back to the insured mortgage system the adaptability to market conditions that it was originally intended to have.

The first step is to seek the repeal of the discount control amendment, which was added to the National Housing Act in the 1957 session of Congress. The second step is to free the interest rate itself from artificial restrictions other than as may be thought desirable to prevent usury. The third is to bring about the reorganization of FHA itself in an independent corporate form that will to some degree insulate it from the constant and disrupting pulling and hauling of political influences.

This program is in every way consistent with the Statement of Policy which was adopted by MBA two years ago and which is now being revised only to emphasize more sharply the current situation. It is a sound program. We should stick to it, despite discouragements and disappointments, in the conviction that in the end its soundness will be recognized.

Along with this there is a temporary measure we should still be working on. That is the freeing of the FHA rate within the maximum limit now set in the Act. This step taken even at this late date might still help to speed up the enlargement of the flow of mortgage funds. It would lend the flexibility needed to meet the variety of conditions over the country. It would give at least a partial demonstration of how a free market works, for I am confident that before the year is over—without further administrative action—mortgage loans would be made at less than the maximum.

The most practical time to gain freedom is when the market is easing as it will be doing this year. We should not miss the opportunity. It may not come to us soon again.

Private Pension and Retirement Programs Record Biggest Gain; 16 Million Covered

PRIVATE pension and retirement programs, one of the major economic forces built up by the American people through voluntary decision, have reached new high levels in their coverage and resources in a continuation of their rapid and persistent growth in recent years.

Today these programs are one of the fastest-growing of the nation's leading thrift channels, and are an outstanding example of how the people are building for the future and their confidence in it.

Here are some of the highlights of the balance sheets of these private pension and retirement programs, insured and noninsured combined, as the year 1958 gets into its stride:

Coverage—more than 16 million members of the working population are now on the rolls (excluding retired pensioners), up more than 7 million, or 83 per cent, since 1950. Right now, private pension and retirement programs cover nearly one person in every three in private nonfarm employment.

Pensioners—approximately 1.3 million persons are now drawing a pension or receiving a retirement benefit under these plans, about three times as many as in 1950 when the number of pensioners added up to fewer than a half million. The trend of recent years indicates that the number of pensioners will show an increasing growth as the plans in effect continue to expand and to develop more maturity.

Pension payments—now running at an annual rate of more than a billion dollars for the first time, representing practically a threefold rise since 1950 when benefit payments were little more than $350 million.

Reserves—estimated at approximately $34 billion at the end of 1957, up about $23 billion from 1950 and triple the total in that year. Reserves have also been showing an increasing growth trend, and the indicated 1957 increase of about $4 billion was the biggest in the record of these programs.

Contributions—total of employer and employee combined now at an annual level of more than $4 billion a year, over double the comparable 1950 figure. Employers are the predominant contributors, their proportion running about 85 per cent of the

total annual contributions into private pension and retirement programs.

The number of persons covered under insured pension plans represents about a third of all those enrolled under private pension and retirement programs. The reserves behind the insured plans, which now exceed $13 billion, currently constitute about 40 per cent of the reserves behind all private pension and retirement programs.

Taking the broad sweep of pension and retirement programs, public as well as private, the figures show that combined contributions into these plans are now running at the rate of approximately $15 billion a year, more than double the comparable 1950 total. Pension payments under private and public plans combined have shown a rate of growth four times that of contributions in the period. They are now estimated to be at least $8 billion a year as against well under $2 billion a year in 1950. These rates of growth are much greater than that of the economy as a whole in the 1950-57 period.

Thus, from the point of view of how much they are now contributing to the nation's income stream, pension and retirement programs have become one of the significant stabilizers in the American economy, and will grow in importance in the years ahead. Based on the latest figures, more than 8 million persons 65 years old and over, or substantially more than half of this entire age group, had some assured lifetime income under a public or private retirement program in 1956 exclusive of life insurance or any other savings they may have.

Thus the majority of our older population has some degree of financial independence, but this is at the mercy of the trend of the buying power of the dollar. In this respect, the rise in living costs to new record levels over the last two years, and the renewed inflationary pressures inherent in enlarged Government spending proposals, pose one of the major problems of our times.

As a rapidly-growing source of capital and investment funds for business and industry (small as well as large), Government, and the home owner, private pension and retirement programs have likewise become one of the major forces supporting the growth of the economy.

An analysis of how the reserves behind private pension and retirement plans are invested, allocating to the reserves behind insured plans the same proportion of investments as prevail in total life insurance assets, shows that close to half of all these reserves are in corporation bonds. Most of the balance is divided between Government securities, mortgages, and common and preferred stocks. Thus the contributions into private pension and retirement programs are being employed directly to promote jobs and opportunity.

"Mortgages at current interest rates will look attractive and be eagerly sought six months from today" by lenders because of marked improvement in the supply of loan funds that will be available for home financing, said Oliver M. Walker, Washington, D. C., chairman of NAREB's Committee on Real Estate Economics as he commented on a fourth quarter (1957) survey of the mortgage market.

"Every indication points to an ample money supply in 1958. It now appears that there will be more money than mortgages available during the year."

He followed this observation with his forecast of lender interest in mortgages at current rates.

The greatly improved real estate financing outlook was attributed to the recent dramatic effects of easier credit moves spearheaded by reductions in the rediscount rate charged by the Federal Reserve Board to member banks.

Our Prosperous Recession

If 1958 is going to be a serious recession year, as plenty of people have predicted it will be, then it's going to be the most prosperous recession this country has ever experienced, says Dr. McKinley. He thinks spending this year will be higher than that of 1957, by about $13 billion, and total spending—or rather the drop in spending—is the very thing upon which so many have based their gloomy economic views of 1958.

By GORDON W. McKINLEY

THE word "recession" is unfortunately one of those weasel words which slip around without ever acquiring any very clear meaning. Although no one knows exactly what the word means it nevertheless carries with it a rather ominous sound, more or less implying that the economy is on its last legs and that very serious things are ahead. If the word recession means a major business setback, then I would say unqualifiedly that we are not in a recession.

Gordon W. McKinley

On the other hand, everyone knows that some sort of adjustment is now underway. The Federal Reserve Board index of industrial production—which measures the physical output of our factories and mines—reached a peak over a year ago and declined all through 1957. In more recent months, unemployment has climbed, and personal income has shown some drop. Although figures have not yet been released for gross national product in the fourth quarter of 1957, it is probable that when they are published they will show a small decline. The facts are, therefore, that unemployment is up, personal income is down slightly, and total output—whether measured in physical terms or in value terms—has receded from earlier record levels.

The second question is a more important one: What has caused the current business adjustment? Why has business activity headed downward, when only a few months ago we were concerned about how to contain the boom and halt inflation?

The present downturn stems from a decline, or a change, in three main types of spending.

First, business spending on plant and equipment has reached a peak and is now dropping fairly sharply. During 1955 and 1956 a good part of the upward drive in the economy was imparted by the steadily accelerating capital boom. There seemed no end to business plans for new factories, office buildings, shopping centers, machinery, and other capital equipment. During 1957, however, excess capacity began to appear in many lines and there was an accompanying slowing in the growth of business expenditures on plant and equipment. Finally, within the last month, this type of spending has actually turned downward, and it is expected to decline by about 6 per cent during 1958.

The *second* cause of the current business dip has been the pronounced cutback in government defense spending which occurred during the last few months of 1957. During the first nine months of 1957, the rate of defense spending had run substantially in excess of the budget estimate. This high rate of spending had drawn strong protests from Congress, which in those pre-Sputnik days was in an exceptionally economy-minded mood. In an effort to stay within the budget, the Administration set in motion severe cutbacks in defense orders, and even established a system of delays in government payments to private contractors. The effect of these cutbacks soon became apparent in areas of the country with heavy defense production, and there was of course a spreading effect throughout the whole economy. The annual rate of defense spending dropped as much as $1 billion during the last half of 1957, and this inevitably had a depressing effect on the whole economy.

Although cuts in government defense spending and in business capital expenditures have been important contributors to the current general business adjustment, I do not believe that these two factors have constituted the *basic* cause of the dip. To really understand what is happening now, we must go all the way back to the beginning of 1956, when a very important change occurred in the pattern of consumer spending. The year 1955 was a boom year, with consumer demand for durable goods being particularly strong. The automobile industry sold over seven million cars, and sales of household goods and other large consumer items reached very high levels. Early in 1956, however, consumers suddenly lost interest in durables. They did not by any means stop spending; their purchases of non-durables continued to rise. But durable goods buying leveled off with dramatic suddenness. What happened in early 1956 was therefore a pronounced shift in the *direction* of consumer spending, away from durable goods and toward non-durable goods and services.

If this shift had been short-lived it would soon have been absorbed. But the new direction, or distribution, of consumer spending continued all during 1956 and all during 1957. Late in 1957 consumers were spending about $20 billion more on non-durables than at the beginning of 1956; their expenditures on durables, however, showed no increase at all during these two years.

Now, a shift in the direction of consumer spending as pronounced as that which I have described is very difficult for the economy to absorb in stride. Our productive plant and our labor force is built up in response to the usual, or normal, pattern of consumer demand, and when consumer buying in one whole segment of the economy declines, we are bound to see plants operating at less than full capacity with an accompanying rise in unemployment. This is so because capital equipment, and even labor, cannot be shifted immediately to accommodate a change in consumer wishes, and the time lag is likely to involve a widening circle of pessimism and declining incomes.

The present business adjustment has therefore stemmed from changes in three different kinds of spending: *First,* the shift in consumer spending away from durable goods; *second,* the sharp cutback in defense expenditures; and *third,* the current decline in business expenditures on plant and equipment. Now that we have analyzed the causes of the business dip, we are in a position to look ahead and ask how long the decline will last, when the recovery will begin, and what sort of a year this is going to be when the final figures are in.

In a free enterprise system like our own, the level of business activity depends upon the level of spending. We produce for a market, and if the market is not there in terms of dollar demand, then production inevitably declines. There are, of course, different *kinds* of spending. There is business spending for capital goods, business purchases for inventory, expenditures for housing, consumer expenditures on all sorts of goods and services, and finally, government spending. I have already pointed out that the current business dip has been due to declines or changes in the direction of three of these spending segments. Similarly, the upturn in business activity, when it occurs, will be due to the fact that spending in some segments has ceased to fall and spending in other segments is starting to rise more rapidly. In order to get the answer to our question, let's analyze briefly each type of spending during the coming year to see whether it is likely to exert an upward or downward effect. It will then be possible to estimate at what point during the year the upward moving segments will outweigh the downward moving segments.

Capital Spending. First, let's consider what is likely to happen to business expenditures on plant and equipment. I do not believe that this type of spending will turn upward during 1958. Business capital spending has already dropped somewhat from the level which existed in late 1957. I think the decline will continue fairly rapidly for the next two or three months. Thereafter, the rate of decline will become much less pronounced. But I do not believe that we can count on an upward movement from this segment during 1958. For the year as a whole, my estimate is that business capital expenditures will be down $3 billion from 1957, with most of the decline occurring early in the year.

State and Local Government Spending. The next spending segment—state and local government expenditures—is an encouraging one. State and local government spending has been rising almost without interruption during the whole postwar period, and the rise will continue during 1958. The almost insatiable demand for more schools, highways, sewage systems, and all the other capital projects associated with our growing and moving population, will lift state and local government expenditures by about $3 billion in 1958. For the year as a whole, the rise in this type of spending will roughly offset the fall in business capital expenditures. Since capital spending will fall more rapidly in the opening months of the year, however, there will be some net downward effect in the immediate future.

Federal Government Spending. Cutbacks in government orders during the last half of 1957 have been one of the factors responsible for the current decline in business activity. The appearance of Sputnik, however, has resulted in a drastic reappraisal of our defense establishment, and there is no question that defense expenditures will rise in the coming year.

Even before government expenditures rise, the increased tempo of government orders will stimulate private expenditures. We are already beginning to feel some of the effects of the revision in defense plans. Orders for new types of bombers and fighter planes have been speeded up, the missile program is being accelerated both in variety of missiles and in quantity of output, and missile installation schedules have been advanced.

Apart from the defense effort, it has recently become clear that the federal government is also pushing other types of expenditures as anti-recession measures. Housing funds previously frozen have been released, and the Export-Import Bank is being encouraged to accelerate its lending activity. Judging by the present mood of Congress, it is probable that

an even greater boost to federal expenditures will come out of forthcoming legislative sessions.

It is probable that federal government purchases of goods and services will rise steadily during 1958, with the overall total exceeding 1957 outlays by $2 billion. This increased buying will of course push business activity upward.

Housing Expenditures. Another encouraging spending segment is the housing area. Housing starts in the United States came close to a 1.5 million annual rate at the beginning of 1955, but thereafter a long and steady decline set in. Housing declined all through 1955, 1956, and into 1957. By March of last year the annual rate of housing starts had fallen to 933,000, the lowest March in eight years.

After March, however, housing began to move ahead in a moderate but steady climb. The present seasonally adjust rate is about 1,000,000, and there is good reason to believe that the advance will be continued in the year ahead. Contract awards and applications for FHA commitments are holding up very well, and builders themselves are cautiously optimistic. Housing during the past two years has been unduly depressed partly because home costs and prices have been rising more rapidly than average family income, and partly because there has been a serious shortage of mortgage funds. In the year ahead, there is hope for an improvement in both of these factors. Home builders have become increasingly aware of the importance of costs and prices. A survey by the National Association of Home Builders indicates that builders plan much greater concentration on lower-priced homes in the coming building season. The easing in the capital market is likely to release a greater flow of mortgage loan funds, and possible Congressional action to relax FHA terms would have a further stimulating effect.

My estimate for the housing industry is that housing starts will show a fairly steady rise throughout the year, and the total for the year will amount to about 1,085,000, an increase of 10 per cent over the 1957 total. Spending on housing in 1958 is likely to be up $1 billion over 1957.

Consumer Spending. The most difficult type of spending to forecast is that by consumers. Recent declines in personal income and rising unemployment will of course have a depressing effect on consumer spending. But after a very careful analysis of consumer spending cycles in the postwar period, I am willing to go out on a limb and predict that consumer expenditures in the coming year will rise as much as $11 bililon over 1957. This increase, it is true, is less than any year since 1954, but it is nevertheless sizable and I think will prove the key factor in the 1958 business picture.

Many economists have regarded the consumer as a passive factor who simply reflects what is happening in other segments of the economy. I think that in the postwar period the consumer has shown that he has a mind of his own. In the recession of 1954, consumers actually *increased* their spending even though the federal government and business corporations were sharply reducing their expenditures. The consumer is not simply an automaton. He can spend a greater proportion of his income when he is in the mood, and he can also supplement income with credit. The job of the salesman during the coming year is a particularly vital one. Consumers *can* be sold, and if they *are* sold, their purchases can lift the economy right out of this business dip.

The importance of psychology in this area is tremendous. I think that every salesman should scan the newspapers daily for encouraging business news—and there is plenty of it if you will look for it. Every time you hear a gloom-peddler describing the terrible recession for which we are headed, I would face him with these optimistic news items and remind him that businessmen are staking millions of dollars on continued prosperity.

I am betting on the consumer in 1958. I think he will continue to spend on non-durable goods and services, but I also believe we are going to see a substantial increase in durable goods purchases, which consumers have neglected for two full years.

Inventory Purchases. Now for the final spending segment in the economy —the segment which will tell us *when* the upturn is likely to begin—business inventory purchases.

Retail inventories at present are not too high. In fact, the ratio of retail inventories to sales is exceptionally good. But manufacturers — particularly manufacturers of durable goods —have experienced a substantial involuntary rise in inventories, and there is no question that these inventories are too high for the current level of sales.

Fortunately, a good deal of the necessary adjustment in manufacturers' inventories has already occurred. During the fourth quarter of 1957, manufacturers reduced output quite sharply so that production fell below shipments, and inventories were cut down. I do not believe that the inventory adjustment is over. Manufacturers will probably continue to hold down output during January and February. But by March, if sales are still holding up reasonably well, production will probably begin to rise. With the increase in production will come an increase in employment and incomes, and thus a further improvement in sales.

Although it is very difficult to pinpoint exactly the turning-points of business, my estimate is that in March of this year the current business adjustment will be over and the economy will be moving upward. My guess is that gross national product will be higher in the second quarter of the year than in the first, and that the rate of increase will be accelerated in the third and fourth quarters of the year.

Now, in summary, let me add up the various spending segments I have discussed to see what is likely to happen to business as a whole. I have estimated that the only unfavorable factors will be (1) a decline of $3 billion in business expenditures on plant and equipment, and (2) a continued low rate of manufacturing production during the next two months in order to work down inventories. These two factors will hold down business in the opening months of the year, but the inventory correction may well be completed by March, so that thereafter even this unfavorable factor will be removed. (In addition to these two unfavorable factors, there is likely to be a decline in our export surplus of $1 billion.)

On the favorable side, I have estimated a rise of $3 billion in state and

(Continued on page 26, column 3)

Mortgages Are Often

INEFFICACIOUS is an expensive word meaning "not able to produce the effect desired." It is appropriate when the value of a company's real estate is not in itself sufficient to permit the borrowing of all the long-term funds justifiably needed or desired to operate the business successfully. Why is this true in many, but not in *all* situations? What is a solution to this problem which confronts mortgage bankers quite frequently? Inflating the appraisal of the property is certainly not the answer.

At least since the time when Queen Isabella pawned her jewels to finance an expedition into the outer space of that era, money has been borrowed on one thing and used for something else. The lender is not perturbed—he appraised the collateral, he knows he can sell it for more than he loaned or perhaps he would like to own it himself for the balance of the loan, in the event of default. He is not at all concerned whether or not the project is successful and he may even hope that it fails in order to acquire some property at a bargain price. Columbus needed enough money for his entire venture, but who would be foolish enough to make a full loan secured by ships at sea, perishable provisions, wages payable, plus undiscovered and unowned real estate.

Today an industrial enterprise needs capital for many things which are neither legal nor practical mortgage collateral. Capital consists of the investment of the stockholders plus the accumulated retained earnings withheld from them. In addition, there may or may not be borrowed capital which must be repaid at specified times. Borrowed capital may take the form of long or short term notes (secured or unsecured), debentures, mortgage bonds, real estate mortgages or perhaps a combination of two or more of the foregoing plus a debt obligation subordinated to the prior rights of other creditors by agreement. Many companies have no borrowed capital whatever, except as it always exists in the nature of unpaid wages, taxes, accounts and accrued amounts on items due at some nearby date.

Now after this tortured but necessary preamble, how do we get down to business and make an industrial loan? The borrower (or somebody) tells you a loan is needed. You meet with the principals and exchange pleasantries and after that anything can happen. The prospective borrower, with but little encouragement, will expound upon his favorite subject—his firm's assets, both hidden and actual. The experienced investigator will listen courteously and with undivided attention. The next step is to ascertain the liabilities as they exist in the latest financial statement. This phase is usually less exulting.

Liabilities are often the most accurate section of an industrial balance sheet, but there are occasionally hidden liabilities as well as hidden assets. Are all taxes accrued to date? Are there undisclosed commitments? Are there burdensome lease obligations? An intelligent analysis of the existing liabilities, therefore, is a prerequisite to determining whether or not the prospective borrower can be helped by the creation of some new form of debt. The circumstances as they are developed may warrant (1) no loan of any kind; (2) a refunding of existing debt; or (3) new funds for new projects. The latter, of course, must be investigated and justified.

The problem cannot be identified, however, without a knowledge and comprehension of the essential purpose of the business. That purpose is to make a profit. Making a healthy and consistent profit is just as essential to a sound company as a child's report card is in getting a promotion to a higher grade in school. Profit is as important as a good batting average is to stay on a baseball team. Loans to replace losses are not considered desirable or sound because principal and interest must be either repaid out of the successful operation of the business or out of the proceeds of the liquidation of the company's assets.

At this point it is obvious that in industrial financing we now have departed from the concept of money lending as practiced by Queen Isabella's pawnbroker. You do not, or at least you should not, pledge an essential part of a business to someone who hopes it goes broke. In our economy a true lender (or investor) is not interested in acquiring all or part of a business through foreclosure or other legal processes. He is interested only in investing a sum of money to earn interest and have his principal returned when due, and as agreed.

All prospective borrowers should contemplate upon the fact that they are competing for funds controlled by professional and sophisticated investors who have an extremely wide choice of selection. The estimated demand for long-term funds in 1957 was $23.2 billion of which $11.9 billion was for all types of mortgages, $7.9 billion for corporate and foreign purposes and $3.4 billion for states and municipalities. These are net after deduction of amortization and other payments of principal. In addi-

en INEFFICACIOUS

They are? Yes, inefficacious—but let's let the author tell why. Here he discusses industrial financing in a pointed but original manner which should interest the mortgage banker contemplating enlarging his activities in this field of lending. Mr. Robertson was represented in the April, 1957 issue of The Mortgage Banker *with a stimulating article on "Buildings Don't Write Checks."*

By **ROBERT S. ROBERTSON**

Vice President, Leighly & Robertson, Inc., Chicago

tion, the short-term debt of the Federal government was constantly being refunded with an average turnover of about $5 to $6 billion per month. There are over 3,000 corporate bond issues in the hands of the public and many of these are actively traded every business day. It should be sufficient then to say that there are many opportunities from which a potential investor may make selections from time to time—or abstain from making any.

Industrial loan applications come in all sizes for numerous purposes and from every kind of organization. Matching the needs of prospective borrowers with the policies and prejudices of potential investors and at the same time being consistent with prudence and the conditions of the money market is a difficult task. A competent intermediary earns his fee because he knows *how* and *whom* he can interest in *what*—based upon his reputation, knowledge, experience and judgment. His continued prosperity depends upon his honesty and his objectivity. He must be knowledgeable both in industry and in finance. Above all, he must know what constitutes a good loan when he has the opportunity of considering one.

Let us assume that the prospective borrower is good. The favorable factors outweigh the bad factors in the industry. The product has won acceptance in competition. The management is able and experienced in the field. The owners show reasonable restraint in the handling of withdrawals for personal use. There are no tax evasions, misrepresentations or withholding of material facts. The purpose of the loan appears to be sound and the records and everything else indicates the amount of the loan is not only adequate, but is well within the borrower's capacity to repay. Under these circumstances, you can decide to proceed. At that time *and at that time only* are you qualified to determine (1) the probable size of the loan; (2) the form of the instrument (mortgage, debenture, note or mortgage bond issue); (3) the probable interest rate; (4) the length of time for repayment; (5) the probable investor; (6) the other terms and conditions common to the type of documents selected and; (7) the amount of the fee to be paid by the borrower for services in obtaining the loan.

Mortgage bankers tend to become inefficacious when they attempt to reverse this procedure and select a suit of clothes that will not fit no matter how hard they try. It is necessary to obtain all the measurements and then the fabric must be chosen before cutting the cloth and sewing the garment.

How Monetary Policies

DURING the postwar period the real estate mortgage market has become increasingly, and often painfully aware of the impact of monetary policies. It is not an exaggeration to say that nowhere in the business community has more effort been expended on understanding and appraising the effects of Federal Reserve policies than in the mortgage banking fraternity. Their vital interest in the impact of monetary policies is perhaps exceeded only by that of the homebuilders who have also come to appreciate that the Federal Reserve can exert an important influence on housing. This latter is perhaps the understatement of the year.

James J. O'Leary

In spite of recognition by those active in the mortgage market and homebuilding of the important influence exerted on their activities by Federal Reserve policies, monetary theorists are still inclined to limit their discussion largely to the impact of monetary policies upon commercial bank credit and the bond market. This approach is much too narrow because it is clear that monetary policies have highly important effects in the mortgage market.

Before turning to the impact of monetary policies on the mortgage market, it will be helpful to distinguish between several component parts of the market. This is because the impact of monetary policies falls somewhat differently upon these parts. In the non-farm residential mortgage field it is useful to distinguish between Government-insured and guaranteed mortgages, on the one hand, and conventional mortgages, on the other. The basic distinction of course is that the interest rate on Government-insured and guaranteed mortgages is a regulated rate. Whatever yield flexibility exists for investors in this area comes about through discounts or premiums. Because of the regulated rate, this sector of the capital market is unresponsive to changes in overall capital market conditions. On the other hand, the interest rate on conventional residential mortgage loans, although sluggish in movement, is free to reflect and respond to capital market changes. Other important differences are that the Government-insured and guaranteed mortgages are characteristically low down-payment, long-amortization period mortgages, whereas state law and custom place the conventional loans characteristically on a much higher down-payment and a shorter amortization basis. There is also, of course, the Government-insurance or guaranty in the one case and the absence of it in the other.

The other sector of the real estate mortgage market which should be distinguished is conventional mortgage loans on commercial and industrial properties. Because of the close relationship of this sector of the market to financing by means of industrial bonds and notes, the interest rates on conventional business mortgages are much more sensitive to changes taking place in the bond market and in the capital market as a whole. Net yields on these mortgages are fairly closely related to net yields on industrial and public utility bonds and similar investment outlets.

It will also be helpful here to consider briefly certain characteristics of the market which have an important bearing upon the impact of monetary policies. Of primary significance is the fact that mortgage financing is characterized by the forward commitment procedure. This means, for example, that a residential builder, prior to obtaining construction financing from a commercial bank, seeks a commitment for permanent financing from an investor such as a life insurance company or a mutual savings bank. Terms of the financing are specified in the forward commitment. The forward commitment is thus an essential and indispensable part of the financing process. The forward commitment is also characteristic of commercial and industrial mortgage financing.

The forward commitment process is particularly important in the case of new construction because of the time lag involved. A forward commitment made by an investor in April, let us say, on credit terms prevailing in April may finally result in the actual delivery of the mortgage and disbursement of funds in November. The lag, of course, is related to the period of construction. The length of the lag between commitment and disbursement of funds varies a great deal; it may run all the way from a few months to as much as two years or more depending on whether the construction is residential or commercial or industrial, as well as other factors. Another way to view the forward commitment process is that in a period of relatively easy credit and reduced construction activity a large volume of forward commitments may be built up resulting in heavy construction activity at a later time. The forward commitment process renders it exceedingly difficult for the monetary authorities to time the effect of their policies upon construction expenditures.

The most fruitful way to analyze the impact of monetary policies upon the real estate mortgage market is to review the history of these effects in recent years. For this purpose the period from mid-1950 has been chosen because it carries through the experience with direct controls under Regulation X, as well as through the experience under general credit controls. There may be some objection to including a discussion of direct credit

Affect the Mortgage Market

There was a time, not too long ago, when mortgage men did not concern themselves very much with federal monetary policies. What transpired at that high level of finance did not affect the field of mortgage lending was the general view. Today, as Dr. O'Leary observes, there is no area of business where a greater effort is being made to understand the complexities

of monetary policy than in mortgage lending. Here Dr. O'Leary has gone back to re-trace the events of recent years in changing monetary policy as they have affected mortgage lending—and every mortgage man can profit by coming along and re-appraising these events because they provide the basis for a better understanding of current developments and those likely ahead.

By DR. JAMES J. O'LEARY

Director of Economic Research, Life Insurance Association of America

controls but it seems justified because they are the alternative to general credit controls in this area.

The Experience With Regulation X. It will be recalled that when the Korean War broke out in mid-1950 we were in the early stages of a boom in our economy which was spearheaded by the sharp rise in residential construction. At that time the Federal Reserve was still supporting the prices of Government securities at above par. As the demand for residential mortgage credit (especially Government-insured and guaranteed credit) grew, there was an open invitation to institutional investors to extend forward commitments to purchase mortgages on the assumption that if necessary the cash required to disburse these loans could be raised by the sale of Government securities. The significant point is that at this time institutional investors had little need to relate their forward commitments to their cash flow; a large portfolio of readily saleable Government

securities at pegged prices made it certain that cash could be raised to meet commitments almost regardless of how high these commitments became.

It was in this climate that the Defense Production Act was passed in August, 1950, one section of which authorized the Federal Reserve Board at the President's direction to undertake control of the terms of Government-insured and guaranteed mortgages. The act stipulated that before deciding upon the exact form of the controls the Federal Reserve must consult with industry advisory groups. Promptly after passage of the act the Federal Reserve was directed to place the controls in effect and a series of meetings were held with advisory groups representing the home-builders, the various lending institutions, and others.

These meetings, which extended over several weeks, were essential to the drafting of an intelligent regulation in the highly complicated field of residential mortgage credit. Regulation X, which was placed in effect in October, covered virgin territory and was drawn only after an expert group brought together by the Federal Reserve had given the matter very careful consideration. Unavoidably, however, these conferences gave the mortgage market a clear insight into the nature of the regulation as it was in the formulation stage. When it was ultimately announced, about the only thing the market did not know in advance was the actual down-payment and amortization terms.

Given the nature of the residential mortgage market and the pegs on Government securities, the result was preordained. An exceedingly heavy volume of forward commitments on pre-Regulation X terms was built up prior to the effective date of the regulation. How large this backlog of commitments was is not known definitely, but there is general agreement that a major part of residential construction put in place during the life of Regulation X was financed on pre-regulation terms on the basis of the advance commitments. Indeed, it is generally agreed that because of the commitment backlog, Regulation X was barely starting to be effective with regard to construction at the time it was decided in the Spring of 1952 that the regulation was no longer needed.

It is difficult to escape the conclusion that Regulation X had little value as a means for promptly bringing under control the sharp increase of expenditures for residential construction in the critical year following its enactment. This is in spite of the fact that the regulation was carefully and expertly administered. The question may be raised, however, as to whether this means that direct credit controls will always be ineffective in the housing field. Was not the failure of Regulation X largely the product of the conditions existing at the time, namely, the willingness and ability of financial institutions to make a large volume of forward commitments, along with the requirement for extensive consultation with industry advisory groups which stimulated advance commitments? Was it not also the product of the pegged Government securities market which made possible the build-up of a large backlog of commitments?

Undoubtedly the failure of Regulation X can be attributed to circumstances of the time, but it is likewise true that regardless of how direct controls of mortgage credit are instituted at some future date they are likely to experience similar frustrations. The residential mortgage market is a constantly changing one. This means that Regulation X cannot be merely dusted off in some new emergency; it would always have to be subjected to study

> *". . . general credit controls will never function smoothly and impersonally in the residential mortgage field until the interest rate on Government-insured and guaranteed mortgages is permitted to move freely and flexibly in response to capital market forces. There is much merit to the suggestion that the FHA rate, for example, be free to reflect fully the overall market forces. This freedom could be granted under the present statutory maximum of 6 per cent. Unless Government-insured and guaranteed rates are free to react promptly to market forces, it must be expected that general credit policy will be greatly handicapped in the mortgage credit field. . . . Careful and detailed research on the impact of monetary policies on the mortgage market is sorely needed. We have come to realize more and more that general credit policies have a large impact on mortgage financing, but the processes are still largely unexplored. If we can obtain a clearer understanding of how credit policies percolate into the mortgage market, then there is hope that improved timing of policies can be achieved."*

by industry advisory groups and the possibility of sharp buildups in commitments would always exist. This drawback is entirely aside from the principal shortcoming of direct controls such as Regulation X, namely the great difficulty of enforcement. The residential mortgage business is ingenious in discovering new ways to operate, and the enforcement of down-payment and other terms would always be exceedingly difficult.

Turning now to the impact of general credit controls on the mortgage market, the first period to be reviewed is the period covering 1952 through the first half of 1953. Before considering this period, however, it is worth pointing out that general credit controls are assumed to operate through regulating the availability of credit and thus affecting investment yields and the prices of assets. Implicit in the theoretical framework of the functioning of general credit controls is the assumption of perfect competition in the long- and short-term credit markets and flexibility and sensitivity of interest rates. The insensitivity of interest rates on Government-insured and guaranteed mortgages does much to explain the particular impact which monetary policies have had on the mortgage market.

The pronounced rise in housing in 1950 was followed in 1951 and 1952 by the development of an upturn in business and industrial expansion, especially in the latter part of the year. The result of this heavy draft by business and industry on capital funds was a steady rise in 1951 in interest rates on the securities of business and industry, where rates are highly sensitive to competitive market forces. Although rates remained fairly stable in 1952 they are still under pressure of demand. This industrial and utility demand for funds accelerated in the first half of 1953. As interest rates rose on corporate bonds and on the securities and mortgages of business and industry generally in the latter part of 1952 and in the first part of 1953, the fixed rate of 4 per cent on VA mortgages and 4¼ per cent on FHA mortgages became less and less attractive to investors. As a result, institutional investors reacted to this situation by further reducing their flow of funds into FHA and VA mortgages, and even on the greatly reduced volume of new commitments they insisted upon higher-down payments and shorter amortization periods, as well as a better quality of credit in all regards.

It might be wondered why the deepening of discounts on Government-insured and guaranteed mortgages could not have maintained the competitive position yieldwise of these mortgages. The answer is that at this time there was serious doubt that discounts on VA mortgages were legal. Moreover, the ease of public misunderstanding of discounts discouraged this practice with many responsible investors.

There is little doubt that as the pressures on the supply of credit developed in 1952 and into 1953, the restrictive monetary policy played an important role in the shift of investors away from the Government-insured and guaranteed mortgage market. If the Federal Reserve had not pursued a restrictive credit policy it is unlikely that the flexible and sensitive interest rates would have risen so sharply. Or put another way, if the Federal Reserve had been willing to maintain easy credit, the sensitive rates would not have risen so much and more funds would probably have been available for Government-insured and guaranteed mortgages. The fact is, of course, that under the circumstances a failure by the Federal Reserve to restrict credit would have reinforced the inflationary forces already at work because of the heavy pressure of capital demand upon the limited supply of savings.

As the flow of funds into FHA and VA mortgages was reduced, not all of the shift was into the securities of business and industry. Rather, a large proportion of the remaining flow of residential mortgage money took the route of conventional residential mortgages where rates were more flexible and responsible to market forces. In addition, an increased flow of funds was directed into conventional mortgages on commercial and industrial properties. Thus, not only was there a reduction of the overall flow of funds into mortgages in favor of bonds, but the funds remaining for mortgages were directed more heavily into conventional residential and business mortgages where the rates are responsive to market forces.

In the Spring of 1953, as a result of the forces already outlined—namely the heavy overall demand for capital funds relative to the supply of savings and the restrictive monetary policy—there developed an acute shortage of Government-insured and guaranteed credit at rigid interest rates. This situation was made even more difficult by the Treasury issue of 3¼ per cent bonds at that time which attracted some funds from the mortgage market

and contributed to a further rise of flexible long-term interest rates at the expense of the fixed VA-FHA rates. The heavy discounts on Government-guaranteed mortgages did not help the situation appreciably because of the questionable legality of the discounts and the possible adverse public relations involved in purchasing these mortgages at a discount.

Under these circumstances it is not surprising that great pressures arose in the Spring of 1953 for a greatly increased volume of purchases of VA mortgages by the Federal National Mortgage Association. Likewise, the volume of direct loans by the Veterans' Administration to veterans rose. Both of these programs brought commercial bank credit into the VA mortgage market and thus acted to negate Federal Reserve policy in this field.

Late in the Spring of 1953 a swift succession of events took place which completely altered the mortgage credit situation. First, the Veterans Administration increased the rate on VA loans from 4 to 4½ per cent and the FHA rate was also raised from 4¼ to 4½ per cent. The purpose was, of course, to bring these rates back into line with competitive rates in other sectors of the capital market. At the same time there was clarification in the law removing the fear that discounts on VA mortgages would be considered illegal. This action was taken in the midst of growing signs that a business recession was developing. There followed in late Spring, as a result, the dramatic and sudden shift of Federal Reserve policy from one of credit restraint to one of greater ease. The outcome of this change in policy, plus the reduced demand for capital funds by business and industry, was a sharp drop in interest rates on industrial and public utility securities, as well as on Government securities.

After changing the direction of monetary policy in the Spring of 1953 the Federal Reserve moved by a succession of steps in subsequent months to "active ease." Along with the decline in demand for capital funds by business and industry, this policy contributed to a marked drop in the sensitive and flexible interest rates throughout the capital market. The decline was pronounced in the case of corporate bonds and somewhat less marked in the case of conventional mortgages, both residential and business mortgages. In a matter of weeks, or as early as June, 1953, the status of VA and FHA mortgages changed abruptly. Instead of being a drug on the market, they suddenly became most attractive at a gross interest rate of 4½ per cent and a net return after costs of about 3¾ per cent. As might have been expected, therefore, institutional investors promptly expanded their VA and FHA commitments in the second half of 1953. This is shown by the fact that the new commitments by institutional investors to make VA loans in particular rose most sharply at an accelerating pace in that period.

During the second half of 1953 the major effect of monetary policy seems to have been a prompt and pronounced increase in the availability of VA and FHA mortgage funds. Of course, the reduced demand for funds in the business and industrial sector also played a large part in this development. It might have been expected that as the flow of funds into Government-insured and guaranteed mortgages increased there would be a corresponding softening of interest rates in this area. Actually, throughout the second half of 1953 there was little change in the prices of Government insured and guaranteed mortgages at the 4½ per cent rate. The answer seems to have been that a large backlog of deferred demand for VA and FHA mortgage credit had been built up in the period of restraint. This deferred demand absorbed the accelerated flow of funds, with the easing which occurred taking the form of a gradual liberalization of other terms than interest rate.

By early Spring of 1954 the relative attractiveness of VA and FHA mortgage yields had become so great that a virtual deluge of funds flowed into this sector of the capital market. In order to put these funds to work the market moved into 30-year no-down-payment financing, which soon became "no-no down payment" financing with builders resorting to prizes and other "give-away" schemes in order to sell houses. The outcome was a huge buildup of forward commitments to make VA and FHA mortgage loans, especially the former. The very easy credit terms succeeded in stimulating the demand for VA and FHA credit. The ease, however, was primarily in credit terms other than interest rate, which remained quite firm throughout the period. The contract rate was held at 4½ per cent. The huge buildup of VA and FHA commitments made necessary the increased warehousing of mortgages with commercial banks by many institutional investors and loan corresponding in late 1954 and in 1955. This brought commercial bank credit into the mortgage market and became an increasing source of concern with the Federal Reserve authorities.

The housing boom which began to develop in 1954 reached its peak in 1955. It was based, of course, on the forward commitments made in the second half of 1953 and in 1954. By the end of 1954, however, a slowdown of new commitments to purchase VA and FHA mortgages had already become evident. The declining rate accelerated in 1955. The main reasons for this development are twofold: (1) Many institutional investors were persuaded that, in view of the large buildup of commitments and the prospective acquisition of VA and FHA mortgages, a slowdown in new commitments would be advisable from the viewpoint of portfolio balance; (2) as a result of the housing boom, and other forces, business and industry began to set new targets for expansion, and business and industrial capital demand started to move upward. The natural result was, of course, a rise in the yields of the securities of business and industry.

As the business and industrial demand for capital funds began to develop in 1955 on top of the housing boom, the Federal Reserve authorities were required to move into a policy of credit restraint, and this policy acted to accelerate the rise of sensitive interest rates. Early in 1955, therefore, a familiar pattern once again emerged in the mortgage market. In addition to a declining rate of new commitments by investors to purchase VA and FHA mortgages, the credit terms were tightened by investors on the new commitments. More and more emphasis was placed on conventional residential and business mortgages where rates were sensitive to capital market changes. Above all, early in 1955 a shift in the flow of funds to industrial and public utility securities got under way.

This pattern became much clearer in 1956 and 1957 as the rise in business and industrial plant and equipment spending went forward. Rising interest rates in the sensitive areas of the capital market made the rigid rates on VA and FHA mortgages less and less attractive and new commitments in that area declined steadily to very low levels. Concomitantly, increasingly large discounts were quoted on VA and FHA mortgages, but the availability of funds continued to decline in spite of the discounts because of the unwillingness of most institutional investors to purchase on a heavy discount basis. Contributing to this situation, of course, was the restrictive credit policy of the Federal Reserve which reinforced natural market forces leading to a rise in the more sensitive interest rates in the industrial and public utility financing field.

The outcome of this situation has been a reduced volume of housing starts in the past two years, with a larger and larger proportion being financed on a conventional basis. Although the interest rate on FHA mortgages has been raised in stages to the present level of 5¼ per cent in order to attract funds, the increases have proved to be too little and too late to encourage much of an increase in funds in the face of highly attractive rates on business and industrial securities and mortgages.

Possibilities in 1958. The history of the impact of monetary policies on the mortgage market suggests the possibility of a reversal of trends in 1958. If the forecasts of a decline in business and industrial plant and equipment spending this year prove to be correct, and if the Federal Reserve acts further to ease credit, it is logical to expect that the FHA mortgage market will be a principal beneficiary.

The conclusions regarding the impact of monetary policies on the mortgage market are as follows:

» There can be little doubt that during the past several years monetary policies have had a highly significant impact upon the mortgage market as a whole and a differential impact upon component parts of the market. At times monetary policies have provided a stimulus to the mortgage market and at others have exerted a drag on it. It is important to recognize, however, that basic changes in the demand for and supply of capital funds were the controlling influence in the mortgage market and that monetary policies had more marginal yet highly significant effects.

» The experience with Regulation X showed that direct controls are an inherently unsatisfactory device for controlling residential mortgage credit. Because of the need for advance consultation with industry advisory groups and the tendency for a buildup of forward commitments to take place, it is questionable whether this type of control could ever be made effective. This is to say nothing of the difficulty of enforcement.

» With regard to the impact of general credit controls on the mortgage market, a number of conclusions emerge. Because of the fixed rate on Government-insured and guaranteed mortgages, and the ineffectiveness of discounts or premiums as a device for providing yield flexibility, a restrictive credit policy has usually contributed to a famine of Government-insured and guaranteed credit, and an easy credit policy has usually contributed to a feast in this market. There has been a tendency by some to argue that this is in the public good because residential construction automatically becomes reduced in a period of industrial expansion and is stimulated in a period of declining capital spending by business and industry. It can be argued, however, that the effect of monetary policy upon the Government-insured and guaranteed mortgage market is hap-

hazard and is open to question on equity grounds and grounds of social priorities.

One conclusion which is clear is that general credit controls will never function smoothly and impersonally in the residential mortgage field until the interest rate on Government-insured and guaranteed mortgages is permitted to move freely and flexibly in response to capital market forces. There is much merit to the suggestion that the FHA rate, for example, be free to reflect fully the overall market forces. This freedom could be granted under the present statutory maximum of 6 per cent. Unless Government-insured and guaranteed rates are free to react promptly to market forces, it must be expected that general credit policy will be greatly handicapped in the mortgage credit field.

Under the situation which has existed, there is inevitably great pressure on Government to see that credit is available to the VA or FHA market at the pegged rates through some device such as the expansion of FNMA's purchases, direct Government loans, or the use of some fund such as the National Service Life Insurance Fund to purchase Government-guaranteed mortgages. Too often, of course, resort to expediencies such as these have run at cross purposes with the Federal Reserve actions and have greatly weakened the influence of monetary policy. This is to say nothing about the problem of coordinating Federal Reserve policy with the credit-granting power of the Home Loan Bank System, or the power the FHA has over credit terms.

» At best, general credit policies will have a difficult time coping with mortgage credit and housing expenditures because of the forward commitment process and the long lag between commitment and actual construction. Much has been said about the difficulties of timing monetary policies. Nowhere are these difficulties of timing greater than in the case of residential mortgage credit. This is not meant to suggest that there is anything wrong basically with the forward commitment process. It is essential for the efficient operation of the construction industry. What is needed is a much better understanding of the commitment process to improve the timing of policy actions.

Finally, this suggests that careful and detailed research on the impact of monetary policies on the mortgage market is sorely needed. We have come to realize more and more that general credit policies have a large impact on mortgage financing, but the processes are still largely unexplored. If we can obtain a clearer understanding of how credit policies percolate into the mortgage market, then there is hope that improved timing of policies can be achieved.

1957 U. S. Savings Top Debt Incurred

FOR the second time in the current decade, the American people last year added more to their "nest egg" in life insurance and other accumulated long-term savings than they expanded their debt, indicating a growing restraint on the part of the typical consumer in response to the growing impact of inflation on the family budget and the adjustment trend in the economy.

It is true that the people at large went deeper into debt to the tune of more than a billion dollars a month as an average for 1957 in their borrowing to buy homes, cars, and other goods and services. The combined total of mortgages on one-to-four family nonfarm homes, consumer credit, farm mortgage and non-real estate debt, and life insurance policy loans increased by an estimated \$12¾ billion for the year.

As against this, however, the total of accumulated long-term savings of individuals in life insurance, savings accounts, savings and loan associations, and current redemption value of U.S. Savings Bonds owned by individuals, rose by an estimated \$13½ billion during 1957. Thus the people at large went 94 cents deeper into debt during the year for every dollar of increase in their accumulated long-term savings.

This showing is in marked contrast with 1956, when the net expansion in personal debt exceeded the year's increase in long-term savings by \$2 billion, or an increase of \$1.16 in debt to every \$1 in savings. An even wider discrepancy between the two occurred in the buying spree of 1955, when the people expanded their personal debts by a record \$20 billion during the year, some \$7 billion more than the year's growth in savings, or an increase of \$1.59 in debt to every \$1 in savings. In 1954, personal debts grew by \$11½ billion and accumulated long-term savings by about \$13¾ billion, an increase of only 84 cents in debt for every dollar of savings.

Total personal debt at the end of 1957 is estimated at approximately \$177 billion, according to data from private and Government sources, more than double the comparable figure of \$82.1 billion in 1950. During this period accumulated long-term savings of individuals as compiled by the Federal Home Loan Bank Board rose from \$175½ billion to just under \$260 billion, up nearly 50 per cent.

Thus in the current decade personal debt has shown a rate of growth more than twice that of the people's long-term savings. The same relationship is true when the growth of debt is related to economic indicators such as gross national product or personal income since 1950.

PROSPEROUS RECESSION

(Continued from page 17)

local expenditures, an increase of \$2 billion in federal government purchases, a rise of \$1 billion in housing outlays, and an increase of \$11 billion in consumer expenditures.

This analysis leads to the conclusion that total spending in 1958 will increase \$13 billion above the 1957 figure, with the advance being accomplished during the last three quarters of this year. I will not pretend that a \$13 billion increase amounts to a boom year, we have often had annual increases in total spending of over \$20 billion. Nor will I pretend that I am sure the 1958 increase will be exactly \$13 billion. I am willing to say flatly, however, that those economists who have predicted a *decline* in total spending for the full year 1958 compared to the full year 1957 are going to turn out to be very wrong. If there are some who choose to call 1958 a recession year, I would say that it will be the most prosperous recession this country has ever experienced.

President's Page

A TURN HAS COME

WHAT a difference three-quarters of a point can make! First, there was the drop of a half point in the rediscount rate in November, then a further cut of a quarter-point in January —and what far-reaching changes these two moves have created. I suspect that never before have there been such abrupt and significant changes in the money markets as we witnessed in this three-months period. The bond market felt the effects almost instantaneously—within a matter of hours. In the mortgage market the turn-about was not so fast; but I have the idea that, as we get a little further along into 1958, our field will be the greater beneficiary.

John C. Hall

After two years of tight money, after weathering what for some mortgage originators was the toughest going they had ever experienced, a turn has come. Whether so-called "tight money" is out the window is something that can be argued from many points of view; what is important for us at the moment is that our mortgages are more attractive—considerably more attractive—than they were three months ago. Yield differentials have narrowed and now mortgages are in a position to stand up against other investment media which have been giving them such terrific competition. Some of our investors, notably the savings banks, lost little time in getting back in the market. Others will follow.

Yes, the three-quarters of a point cut in the rediscount rate—whatever it may mean for general business—has brought a satisfactory change to the mortgage market. And as we work our way further into 1958, I have the idea that these changes for the better will become even more pronounced.

Looking at the future in a broader perspective, to me the outlook for housing and mortgage financing (they were being called the "depressed" areas not too many months ago) is a bright one indeed. This year is sure to be a much better one than most of us anticipated last fall.

As for the general economy, opinions as to what is happening now and what is ahead are a dime a dozen. Business is off, no question about that; but whether it is just a normal "adjustment," a recession or something more severe is open to various interpretations. Within the past few weeks I have noted the conclusions of competent authorities which run all the way from "the worst is over" to "business will pick up sharply in the last half" and on to the view that no turn can be expected until some time next year. Most authorities who are in a position to have their opinions heard seem to believe our 1958 recession will be of short duration. But here and there we encounter the more sombre view—such as that of Dr. Roger Murray of Columbia University, at our NYU Conference, who believes the slump will cut deeply and last well into 1959; and the view of Elliott V. Bell, publisher of Business Week and an early Administration adviser, who is sure we should be considering public works now to take up the slack; and the conclusion of Lewis Bassie, Director of the Bureau of Economics and Business Research of the University of Illinois (who will address our Midwestern Mortgage Conference in Chicago) that the recession is no minor affair.

Adding them all up, the ayes have it and I for one am going along with the majority, confident that we are going through a period of natural readjustment from trying to do too much too fast in too short a period of time—and that it will not last too long. However, it all works out, our industry looks better than general business does for 1958.

John C. Hall

PRESIDENT

MBA-NYU Conferees Agree It's a Favorable

Housing Outlook in a Recession Year

By **LEO M. LOLL, JR.**

Instructor in Banking, NYU Graduate School of Business Administration

THE recession had arrived more quickly and with greater intensity than many people had expected. Most mortgage bankers are old enough to remember the great depression of the 1930's and lately it had been increasingly difficult to maintain a sound economic perspective in the midst of so much gloomy talk. Last year had been the first year since 1949 in which non-farm housing starts fell below 1,000,000. The decline from the 1956 level was 10 per cent and from 1955 it was down about 25 per cent. Little wonder the senior mortgage banking executives attending the 13th Annual Conference sponsored jointly by MBA and the NYU gradu-

(Continued on page 30)

In photos below: first, head table at Conference's luncheon session. Dr. Philip M. Hauser, University of Chicago, spoke. Next, Dean G. Rowland Collins, NYU Graduate School of Business Administration; Dr. H. W. MacDowell, Conference administrator; Philip C. Jackson, chairman, MBA educational committee; MBA vice president, Walter C. Nelson. Then, Dr. Jules I. Bogen and Saul B. Klaman, Conference speakers.

Below, Walter Nelson again, with Dean Collins and Dr. Marcus Nadler, NYU professor of finance, who spoke at opening session. Then, Carey Winston, MBA clinic committee chairman, and chairman of the Conference's 4th session; with Martin R. Gainsbrugh, NYU adjunct professor of economics and chief economist, National Industrial Conference Board. Finally, a panel session in the Law Lounge, Vanderbilt Hall.

And MBA-SMU Conferees See

Better Investment Days for Mortgages

THE same elements of stability—and the same weaknesses—in our economy which the NYU Conference speakers had pointed to a few days previously were covered by a group of equally competent authorities at the second of MBA's Senior Executives Conferences, the annual "economic retreat" at SMU. The better housing outlook was emphasized and no one could help but see the more advantageous position which mortgages now occupy, investment-wise, as a result of the credit ease. The MBA-NYU event, with a longer tradition behind it, drew a record attendance of nearly 170.

The younger SMU Conference did relatively as well with more than 85 there from 12 States. Members who attend five of the MBA-SMU Conferences will be awarded a completion certificate and those who were there in 1956, 1957 and 1958 can include those years. This year's SMU Conference supplied convincing evidence that our second Senior Executives offering is now permanently established and well on its way to duplicating the success of NYU.

Seen at SMU meeting: B. B. Bass, James E. Klaver, J. DuVal West, Donald S. McGregor and Phil Jackson, top photo. Then, that's Aubrey M. Costa, leaning over table to speak to Aylett J. Buckner, New York Life Ins., Dallas. Finally, Vernon Smith, mayor pro tem, Dallas, with Dallasite J. B. Francis, Mercantile National Bank; Mr. Costa; Mr. Nelson; and Darrell M. Holt, The Towle Company, Minneapolis.

First, speakers' table, luncheon meeting, with Dr. Theodore J. Kreps, Stanford University, at left. Next Dr. Roy L. McPherson, chairman, finance dept., SMU School of Business Administration; Dr. Arthur A. Smith, First National Bank in Dallas; Jerry Frey, Jr.; Dean Collins; Mr. Klaver. Finally, in center of photo, Dr. Laurence Fleck, dean, SMU School of Business Administration; and SMU President Dr. Willis M. Tate.

ate school of business administration, leaned forward intentively to hear the various "experts" discuss on the conference theme "The Role of Housing in a Cyclical Economy."

The three day "economic retreat" began with a dinner meeting with MBA Vice President Walter C. Nelson opening the Conference and introducing Dr. Marcus Nadler, NYU Professor of Finance who discussed "Home Financing and Monetary Policy."

During the course of his presentation, Dr. Nadler made these points:

» The policy of active credit restraint from April, 1955 to November, 1957 had the specific purpose of preventing the use of bank credit in place of capital, which would have had a pronounced inflationary effect on the economy. Since the tremendous investment boom of 1956 and 1957 increased the demand for capital beyond the supply of savings, the reserve authorities made it impossible for the commercial banks to use short-term credit in lieu of long-term savings.

» With a short supply of funds it was quite evident that some sectors of the economy would not get what they wanted and the home building industry was one of the first to feel the impact of the policy of credit restraint. Commercial banks ceased to be buyers of mortgages and other institutional investors shifted to alternate high yield investment areas. Money rates are going down and will continue to do so, so long as business activity decreases, said Dr. Nadler, and the easier money market conditions are bound to have a favorable impact on home building.

» In all probability, toward the end of 1958, home starts will increase and the value of home financing in 1958, taking the year as a whole, should be larger than in 1957, he predicted. The decline in business activity, sharp though it may be, does not alter the long range economic outlook for the United States, which is extremely bright. But, he warned, unless ways and means are found to curb the constant increase in the costs of building and maintaining homes, we may find the average person priced out of the home market with possible increasing pressure to build public housing, an area where the mortgage banker has no role to play.

Saul B. Klaman, advisor to the Board of Governors, Federal Reserve System, spoke on "The Thrift Institutions in the Mortgage Market" and was introduced by MBA Educational Committee Vice-Chairman R. Manning Brown, Jr.

Mr. Klaman said that all types of thrift institutions adjust their investment flows in accordance with changes in several important factors including such things as the flow of savings, capital market yields, monetary policy on the economic front, administrative and legislative actions in the housing field on the political front, all of which are hard to predict. Apart from other changes, however, said Mr. Klaman, if the Federal Government persists in its policy of maintaining relatively inflexible interest rates on federally insured mortgages then we can expect a continued volatile flow of mortgage funds in the years ahead. Mr. Klaman concluded that, "if thrift institutions continue to rely as heavily on Federal programs as they have in the past, they will be vulnerable to unpredictable changes that, to say the least, will not be based on economic realities. The alternate to such uncertainties would be to accept the uncertainties of the market place and bear the risk of error in judgment and economic change with minimum reliance on Federal support, direct or indirect.

Dr. Jules I. Bogen, NYU Professor of Finance, discussed "Mortgage Lending by Commercial Banks. He predicted that the increase in mortgage debt for the next 8 years, 1958-1965, may well exceed the $12 billion annual average increase of the 1950-1957 period. Even though mortgage repayments will be high during the coming period, Dr. Bogen sees a great demand for new mortgage funds due to the rising rate of family formation, increasing building costs, upgrading of housing standards and an increasingly favorable government policy toward home building. Although savings and loan associations, life insurance companies and mutual savings banks will provide the chief outlets for mortgages, commercial banks will be needed more than ever as a major outlet for mortgages. He pointed out that commercial banks in the recent past have proved an erratic market for mortgages and although they absorbed 12 per cent of the increase in mortgage debt from 1950-1957 the proportion they absorbed each year varied from 20 per cent in 1950 to 4 per cent in 1957. Commercial banks tend to shift out of mortgages during periods of tight money, said Dr. Bogen. In the future, he concluded, commercial banks could help provide needed mortgage funds by investing their savings deposits largely in longer-term assets particularly mortgages. The advantage to the commercial bank would be the larger earnings in periods of low interest rates which would enable them to maintain attractive rates on savings deposits without a resultant profit squeeze.

At the Wednesday luncheon meeting, Milton T. MacDonald, MBA past president, and president of T. B. O'Toole, Inc., was toastmaster. Dr. Philip M. Hauser, chairman, department of sociology, University of Chicago, spoke on "Population Changes as a Factor in the Demand for Housing."

Dr. Hauser said the vast population growth and shifts taking place in our country today will influence the future housing market both in direct and indirect ways. Indirectly, the level of residential construction activity will be affected by the extent to which population growth influences the level of total economic activity. Directly, the level and nature of housing activities will be greatly affected by the continued and accelerating growth of metropolitan areas; by the decentralization of population within metropolitan areas; by the effects of the great fluctuations in the birthrate, including the post-war baby boom; and by the changing composition of the population of our urban areas, particularly as represented by the increasing proportion of negroes. He pointed out that the Bureau of the Census estimates that by 1975 the population of the U. S. will be from 207 to 228 million. If the same growth pattern observed from 1950 to 1955 continues for the next two decades to 1975 the metropolitan suburban rings around the central cities will have an increase of from 55 to 60 million persons. In the single decade

between 1950 and 1960, it is likely that the U. S. market will increase by the equivalent population wise of all of Turkey, Spain or Mexico. Dr. Hauser's concluding observation was that the great U. S. population explosion together with the accelerating developments in the urban-renewal program, will provide the housing industry with the greatest challenge it has ever encountered.

Next topic was "The Demand for Homes in a Cyclical Economy," with the chairman Carey Winston, MBA regional vice president.

Martin R. Gainsbrugh, NYU adjunct professor of economics, spoke on "Personal Incomes and the Demand for Housing."

Dr. Gainsbrugh declared that in his judgment the post-war housing boom had not resulted in overbuilding, that we do not face a precipitous decline in housing, but rather, at least for the short run, the outlook for housing is good, and promises to offer counter-support to other segments of the economy which are now weakening. Dr. Gainsbrugh said he was not convinced that the general business cycle and the residential building cycles are closely related. Obviously, he stated, when the economy enters a period of serious decline, as after 1929, housing is dragged down along with the general level of business activity. On the other hand, he continued, in the 1937-1938, 1948-1949 and 1953-1954 business recessions, housing starts rose while the overall economy fell. Similarly in 1956-1957, housing declined while the economy rose, or leveled off. Thus the trend of residential construction has bucked the general business trend, as well as the trend of personal incomes, in the past four cycles.

He concluded that his optimism about housing for the near term stems largely from the fact that housing represents one of the best examples where monetary policy has an immediate and measurable impact and it is now clear that monetary policy is being eased.

Dr. Leo Grebler, National Bureau of Economic Research, Inc. and adjunct professor of urban land economics, Columbia University, spoke on "Mortgage Terms and the Demand for Housing." He sees the 1958 housing picture as a modification of the 1954-1955 housing situation. He said he does not expect the Federal Reserve authorities to ease credit as much as they did in 1953-1954, nor does he expect the financial institutions to react as vigorously in shifting their investments, because of their present lower liquidity; however, he predicts housing starts of 1,100,000 units for 1958.

Dr. Grebler stated his feeling that the congress should stop its present practice of legislating omnibus type housing regulations every year. As things stand, concluded Dr. Grebler, the only time mortgage bankers know "the rules of the game" is when congress is out of session.

A panel moderated by Raymond Rodgers, NYU professor of banking, tackled "The Long-Range Trend of Interest Rates and Mortgage Yields." The panelists were Dr. E. Sherman Adams, ABA deputy manager; James A. Close, vice president, Merchants National Bank and Trust Company; Dr. George T. Conklin, Jr., financial vice president, Guardian Life Insurance Company of America; and Dr. Roger F. Murray, associate dean, graduate school of business, Columbia University.

Dr. Adams saw the long-term interest outlook as "firm" and warned that the 1957 interest rates should not be regarded as insurpassable peaks since they may easily be surpassed. 1957 interest rates were not high for such a high level of business activity nor were they high when compared historically, concluded Dr. Adams.

Mr. Close predicted that interest rates over the short-term would decline further due to the reduced demand for funds. Looking ahead to 1960-1970, Mr. Close claims the long-term secular trend of interest rates will be downward, due to several important factors. These depressing factors include the large flow of savings; the heavy repayment schedule of mortgages; reduced demand for funds, increasing government activity in financing building projects and the rise of nationalism discouraging foreign investments.

Dr. Conklin cited evidence to support his contention that the major economic correction has already taken place in our economy and that we are already seeing the first evidence of the forces of revival. Thus Dr. Conklin feels that interest rates will flatten out at present levels. He stated his feeling that there will be no decline in long-term interest rates. He feels that the relatively constant supply of savings interacting with an increasingly large demand for funds will exert strong upward secular pressure.

Dr. Murray stated his feeling that we need be concerned with cyclical

interest rates, rather than the secular rates. Consequently, he said, we need to know where we stand in this cyclical picture. Dr. Murray then shocked the group by saying, ". . . the 1958 last half upturn predicted by my optimistic colleagues is a mere mirage." Consumer buying power is down and he could see no possibility of a consumer spending spree in the near future. An economic upturn can not be expected until Spring, 1959 at the very earliest Dr. Murray claimed. Consequently short-term interest rates are headed down along with the business cycle to a point perhaps as low as any hit in recent years. Dr. Murray feels the 1957 high interest rates will likely be the highest reached for the next 10 years or so. Dr. Murray concluded by predicting a future of "rapid, rough, wide swings in interest rates" rather than the slow moving secular movements of the past.

Final Conference speaker was Dr. G. Rowland Collins, dean of NYU's graduate school of business administration, who discussed "Mortgage Banking in a Cyclical Economy." He was introducd by Philip C. Jackson, Jr., Chairman of the MBA educational committee.

Dean Collins pointed out that although each succeeding generation seems determined to try to repeal economic law and especially to modify the action and interaction of supply and demand, "it should be completely obvious by now surely that it is both imprudent and inaccurate to accept the pestilent notion that the business cycle has become obsolete."

Cyclical downturns are the price we pay for economic growth without a creeping inflation that may eventually break into a gallop, he declared.

"It is doubtful that there is any perfect solution to this problem of economic instability in times of peace or of cold war," said Dean Collins. "All of us really need to have a better understanding of the basic philosophy that underlies the phenomenon of the business cycle." It is basic to remember that, philosophically speaking, these economic instabilities which are our curse come squarely from our precious democratic freedoms, from our scientific discoveries—our inventions and innovations—and from the economic and credit expansions which are our pride." Thus our economic system in the very act of rapid growth, inevitably distorts itself for short periods and from time to time. It may well be, then, that the basic cultural peacetime dilemma of economic instability versus economic growth is not so much a pure economic or business problem as it is a democratic and scientific problem for which an economic remedy alone would be ineffective.

Dean Collins next labeled as fallacious thinking the notion that whenever a pronounced trend of business is evident—whether down or up—the government will and must take instant and massive action to contain, to moderate, and to reverse that particular trend. Actually, said Dean Collins, "in the present business sag which was evident as long ago as September, 1957, we did not have any immediate and massive action of intervention."

Dean Collins said he suspected that many have missed a recognition of the gradual change in national housing policy that has been going on the last five years. Dean Collins said he saw clearly that the economic role of housing as a contracyclical device has replaced the social role of housing as a means of raising living standards. There is ample evidence to indicate the housing industry is being more and more looked upon by government economists as an industry that must be alternately restrained and stimulated as a contracyclical business force. He said he didn't expect this role to make the mortgage bankers happy but it was one they could not escape.

Dean Collins said the immediate task of the entire housing industry seems clear. It should vigorously take advantage of all the qualitative easements that have already been put into effect by our governmental housing agencies. It should approve and seek additional qualitative supplements to easier money. "To sit back and wait for some massive flooding of the overall money market or for some desperate and gigantic direct hand-out of government funds for housing is neither a necessary nor realistic approach to the present status of the cycle as it effects housing," Dean Collins concluded.

The purpose of the Conference had been to afford the mortgage bankers an opportunity to reflect upon the domestic economy as it has been and will be affected by changes in the financial, economic and political scene. The expected 1958 mortgage banking picture, as drawn from the consensus of expert forecasts, was essentially an optimistic one. According to the critics, it appears that the "U. S. Economic System" is destined to be a long run hit, which will probably play to a near capacity audience for many years to come. Perhaps even as long as "My Fair Lady."

Private Housing in 1958

In the preceding pages have appeared many diverse points of view as to the housing outlook this year and beyond. Now consider the following forecast by the foremost housing economist in the country, Miles L. Colean, as given to the Joint Economic Committee. One of the points emphasized is the need for speeding up FHA processing time, a problem to which MBA is giving careful study at this time.

WHEN observers cast about for some strong force capable of cushioning the drop and stimulating a recovery in business, they usually light upon housebuilding as the best current possibility. I share this conclusion. Housebuilding is potentially such a force and there is good reason for believing in its ability to assist materially in keeping the current recession a mild one.

For one thing housebuilding has already had a considerable shakeout. The number of new permanent private nonfarm houses started has fallen from its most recent high of 1,310,000 in 1955 to 990,000 in 1957, a drop of 24 per cent in a space of two years. During the same two years, expenditures for new private dwelling construction fell from $15 billion to $12 billion, a drop of 20 per cent, in spite of an estimated 6 per cent increase in the cost of residential building. In

terms of constant dollars, the drop in expenditures was around 23 per cent.

From anyway it is viewed, this is a considerable shakeout. It took place at a time when the rest of the economy was for the most part reaching new limits of expansion. While it was taking place, the gross national product rose from a rate of $403 billion in the last quarter of 1955 to $433 billion in the last quarter of 1957, and disposable personal income went from $279 billion to $301 billion. Between the end of 1955 and the end of 1957 population increased 6 million and the net number of new nonfarm households by probably at least 2 million. In the same period around one million dwelling units appear to have been demolished or in other ways removed from the market. Vacancies, which never were very high since the War, dropped from 2.7 per cent in late 1955 to 2.4 per cent according to the most recent quarterly survey (third quarter 1957).

It seems clear that all that went on during the period of housebuilding's shakeout had the elements of a strong recovery. Another reason for believing in the potentiality of a prompt recovery is that the shakeout had an element of artificiality about it. There was little that I can see in the nature of the housing market itself that would have called for as serious a curtailment as has taken place. While it is true that, because of overstimulus resulting from the excessively easy credit available in 1955, there was some satiation of demand in 1956.

What, then, would produce a decline in activity amid evidences of growing demand? One outstanding feature of the period from 1955 to the present was the increasing difficulty experienced in placing insured and guaranteed mortgages at a time when their fixed interest rates were lower than the levels being freely offered by other borrowers in the investment market. It has been my opinion that this difficulty, rather than any serious maladjustment in the housing market, has been the major cause of the slump in housebuilding. At least one reason for thinking so lies in the fact that during 1957 the number of houses financed with conventional loans, on which interest rates were not restricted, actually increased over the number financed in 1956—from 634,000 to 692,000 dwelling units—in spite of the general stringency of credit.

During the past several weeks, credit has become noticeably much easier throughout the whole range of investments. While there is ordinarily a lag of several months in trend in interest rates on mortgages behind the trend in other rates, the rapidity of the change in the general structure of rates indicates that the lag on this occasion will be less than would ordinarily be expected. The time is certainly near when the established range of yields on FHA insured mortgages will be within the range of marketable rates. Already there has been an increased interest in this area of investment. There appears, however, to be little likelihood of the trend going far enough or moving rapidly enough to enable the veterans' guaranteed home loan program to be an important element in the 1958 housebuilding program.

If my view—that credit has been the most important restraining force on housebuilding during the past two years—is right, then the prospect for 1958 will largely depend on the amount and kind of mortgage credit that will be available to builders and buyers during this year.

In 1957, conventional financing, according to the best estimates available, came to 692,000. This was the largest volume of new housing conventionally financed since the 1920s. It may be expected to go higher in 1958. The amount of increase, however, is limited by the number of customers who can meet the relatively high down payments that are characteristic of conventional financing (because of restrictive state legislation) or who can and are willing to make up the gap between their own resources and the conventional limits by second mortgage financing or some sort of a conditional sales arrangement. In such a year as 1958, I should be surprised to see an increase in conventionally financed units of more than 35,000, which would give a total of around 725,000 to 730,000 dwelling units from this source.

Unless the veterans' guaranteed loan program is extended for World War II veterans with a boost in the interest rate ceiling—contingencies which I am not counting on—it would be over-optimistic to expect it to provide for many over 50,000 new dwelling units during the year. Therefore, whatever we are to have in the area of private development above 775,000 new units or thereabouts will depend upon the FHA operation.

Last year, FHA financing provided for 168,000 new units (exclusive of military housing projects, which are classed statistically as public housing). On the basis of the assumption I have made, FHA would have to raise its contribution to 225,000 to reach a level of 1 million new private starts, an increase of about one third, and 325,000 new starts, or double its 1957 volume, to reach 1.1 million—a figure which seems to me to be well within the area of potential demand.

The question is—and it may be the most important question of 1958—can FHA attain such goals? In 1950 FHA financing provided over 486,000 starts, but, since that was the big year of rental housing activity under Section 608, such a figure is not likely to be repeated. The most volume that FHA has produced in any subsequent year was just under 280,000 in 1952.

I think there is a real basis for questioning FHA's ability to repeat its 1952 performance, let alone to surpass it. For one thing, FHA enters the year with its prospective business on the decline. It has in fact been on the decline since last August when discount controls were instituted. Since that time the number of new applications for new dwelling units per month (exclusive of Capehart housing) has dropped from 28,000 to 15,000 and we have yet to see statistically the effects of the recent changes in credit conditions. Yet this is the very season of the year in which applications should be increasing if there is to be a strong pickup of building in the spring.

More serious than this is the fact that even with a declining volume, most of the FHA offices have been unable to handle their cases within a reasonable period of time; and it may even be true that the delays and frustration attending FHA processing operations have contributed to the decline in activity. The Mortgage Bankers Association of America has recently made a survey of the ex-

(Continued on page 38, column 2)

MBA's Second Servicing Clinic to be Held in Detroit — March 6 and 7

Detroit, Michigan — the Statler Hotel—will be the site, March 6-7, of the second of MBA's two Mortgage Servicing Clinics for 1958. Like its predecessor meeting in Baltimore earlier this month, the clinic's theme will be: "Participate and Profit."

W. W. Dwire, vice president, Citizens Mortgage Corporation, of Detroit, is clinic chairman. He will preside at the meeting's opening morning session. **Homer B. Wells,** president of the Detroit MBA, and president, Homer Warren and Company, will deliver a speech of welcome.

A panel discussion dealing with "Current Servicing Problems" will comprise the first morning's program. Serving as co-moderators for this panel will be **Howard E. Meyer,** manager of servicing, New York Life Insurance Company, New York City; and **Thomas E. McDonald,** vice president, T. J. Bettes Company, Houston. Panel participants will be:

P. N. Brownstein, assistant director for loan policy and management, Veterans Administration, Washington, D. C.;

Edwin G. Callahan, deputy director, legal division, Federal Housing Administration, Washington, D. C.;

Joseph L. Engleman, director of mortgage services, Mutual Life Insurance Company of New York, New York City;

Harry M. Gilbert, assistant loan manager, Federal National Mortgage Association, Washington, D. C.;

Larry L. Guttenberg, treasurer, Michigan Mortgage Corporation, Detroit;

L. K. Horn, comptroller, Lon Worth Crow Company, Miami;

William F. Schreiber, comptroller, Erie County Savings Bank, Buffalo.

A noon luncheon meeting will feature an address by **Walter C. Nelson,** MBA vice president, and president, Eberhardt Company, Minneapolis. His topic will be: "Mortgage Servicing—A Progress Report." Mr. Dwire will preside.

Following the luncheon, a series of round table seminars will be held. These will be repeated again on Friday morning between 9:00 a.m. and 12 noon. Under this arrangement, it will be possible for all clinic attendees to participate in three or four different sessions, depending upon their selection.

First in the line-up of afternoon seminars is one on "Tabulation — Punch Card Accounting." This particular session, encompassing two full periods, has been designed to resolve problems for those companies now using tabulating equipment and those companies considering conversion to this equipment.

Leader of the first session, Thursday afternoon, will be **Walter Barry,** vice president, James T. Barnes & Company, Detroit. **Waid J. Davidson, Jr.,** assistant actuary, Pan-American Life Insurance Company, New Orleans, will lead the second portion of that same session later that afternoon. Friday morning's discussion leader will be **Raymond B. Deneweth,** assistant secretary, Citizens Mortgage Corporation, Detroit. The second portion of that morning's session will be led by **W. J. Lierman,** controller, Mercantile Mortgage Company, Granite City, Illinois.

The complete schedule of round table seminars and their respective discussion leaders is as follows:

Delinquencies — **Ollie E. Rollings, Jr.,** manager, servicing department, Liberty National Life Insurance Company, Birmingham, Thursday; **Miss Charlotte H. Durkin,** assistant secretary, Draper and Kramer, Inc., Chicago, Friday.

New Ideas in Servicing — **F. C. Haas,** manager, mortgage services, Investors Diversified Services, Inc., Minneapolis, Thursday; **Donald A. Luff,** vice president and general manager, Jay F. Zook, Inc., Cleveland, Friday.

Insurance Administration—**Fred W. Klass,** vice president, McMillan Mortgage Co., Los Angeles, Thursday; **Gordon Seibert,** president, Nickels & Smith Co., Minneapolis, Friday.

(Continued on page 38)


W. W. Dwire


Howard Meyer


Walter C. Nelson


Thomas McDonald


L. K. Horn


H. Duff Vilm


A. A. Johnson


John K. Benoit


P. N. Brownstein


L. C. Forth


Lemuel J. Holt


Frank C. Haas

Nashville to be Host for Southern Mortgage Conference, March 24-25

Lead-off event on MBA's circuit of meetings for spring is the Southern Mortgage Conference to be held in Nashville, March 24 and 25, at the Dinkler-Andrew Jackson Hotel.

Presiding at the Conference's opening Monday morning session will be Herschel Greer, president of the Guaranty Mortgage Company of Nashville. Mr. Greer is a vice chairman of the national MBA clinic committee, in charge of the Southern Conference. Carey Winston, chairman of the MBA clinic committee, and president, The Carey Winston Company, Washington, D. C., will welcome registrants to the Conference.

A welcome to Tennessee will be given by The Honorable Frank Clement, governor of Tennessee; and The Honorable Ben West, mayor of Nashville, will welcome all conferees to the city.

MBA President John C. Hall, president of Cobbs, Allen & Hall Mortgage Company, Inc., in Birmingham, Alabama, will speak on "The Mortgage Outlook for 1958." Also from Birmingham, John A. Hand, president of The First National Bank of Birmingham, will follow Mr. Hall; his topic will be: "Construction Loans and Mortgage Warehousing."

John C. Hall

Herschel Greer

John Hand

Carey Winston

The Honorable Sinclair Weeks, Secretary of Commerce, Washington, D. C., will speak on: "The Government's Blueprint for Business Recovery."

On Tuesday morning, March 25, at 7:45 a.m., preceding the regular second Conference session, there will be a Young Men's Activities Committee breakfast and discussion meeting. "The YMAC and You" is the topic slated for review. Chairman for this special event is John H. Tipton, Jr., of The National Life and Accident Insurance Company, in Nashville.

The second Conference session will get under way at 9:30 a.m. First speaker on the morning's program will be The Honorable Albert Gore, Senator from the State of Tennessee. He will speak on "The Federal Road Program and Its Effect on the Mortgage Industry." Following the Senator, James W. Rouse, president, James W. Rouse & Company, Inc., Baltimore, will speak on "Urban Renewal."

"FNMA's Role in the Mortgage Business" is the topic to be undertaken by J. Stanley Baughman, president of the Federal National Mortgage Association in Washington, D. C. MBA general counsel in Washington, Samuel E. Neel, will analyze legislation affecting the mortgage industry. B. Frank Patton, vice president, Guaranty Trust Company of New York, in New York City, will speak on "Pension Fund Potentialities."

Homer B. Gibbs, assistant vice president and assistant manager, The National Life and Accident Insurance Company, in Nashville, will preside over this second Conference session.

Along with the business aspects of this meeting, a varied schedule of social events has been planned. Preceding the actual start of the Conference business sessions, there will be a reception for all registrants on Sunday evening, March 23, in the ballroom of the Dinkler-Andrew Jackson. Hosts for this affair will be The National Life and Accident Insurance Company, the Life & Casualty Insurance Company and all Nashville banks.

On Monday evening, from 5:30 to 7:30 p.m., the Nashville Mortgage Bankers Association will be host at a reception to be given at the Belle Meade Golf and Country Club.

For those wishing to play golf, it will be possible to make arrangements at either the Belle Meade Golf and Country Club or the Richland Golf and Country Club and the Hillwood Golf and Country Club.

The ladies, too, will have their own special event — an old fashioned Southern brunch and sightseeing tour, commencing at 11:00 a.m. on Monday morning, March 24. The brunch will be given at the famous Belle Meade Mansion; the tour to follow will cover such interesting highlights as the Parthenon, replica of the world-famous Athenian temple built in 438 B.C.; President Andrew Jackson's home, the Hermitage; and other historical sites.

Nashville — because of its many buildings of classic design, its interest in the arts and in education — is known as the Athens of the South.

Messrs. Greer and Gibbs are local co-chairmen in charge of all general arrangements. Other local chairmen of special committees are: William C. Weaver, Jr., sessions committee; W. E. Buist, Jr., and Wm. R. Manier, III, attendance committee; Thomas M. Hobbs, publicity committee; John W. Murphree, special guests committee; and Miller Kimbrough, social activities committee.

Homer Gibbs

Senator Gore

Samuel Neel

J. S. Baughman

Life Companies Build New Home Offices—Pace-setters All!

State Mutual Life Assurance Company of America

State Mutual Life Assurance Company of America, with headquarters in Worcester, Massachusetts, celebrated the dedication of its new pink granite home office building, last November, with a full week of ceremonies and events. Mortgage loan correspondents and their wives came from all sections of the country to participate in the program.

Included in the week's activity schedule were special "family days," when tours of the premises were conducted for employees and their families; also "policyholder days" and "Worcester Days," when tours were provided for visiting individuals, policyholders and the people of Worcester.

A reception and dinner for national agency field leaders was presided over by State Mutual vice president, Joseph B. Long. The dedication of Bullock Memorial Hall, auditorium-cafeteria in the new building, was at-

The new multi-million, 500,000 sq. ft. home office of the State Mutual Life Assurance Company of America.

tended by field personnel, supplier and subcontractor executives and mortgage loan correspondents — nationwide, as well as retired employees. Dedication Day ceremonies included addresses by State Mutual President, H. Ladd Plumley; Governor of Massachusetts, Foster Furcolo; and Philip M. Talbott, president of the Chamber of Commerce of the United States. The ceremony was followed by a special reception and dinner for State Mutual officers and their wives, honoring Mr. Plumley's 12th anniversary with State Mutual.

In occupying its new quarters, State Mutual becomes one of this country's few major businesses which has been able to "move to the country" without even beginning to leave the city. The new site, with 31 acres of its own and 600 acres of Worcester's largest parks immediately south and west of it, is only a short two miles from the business center of Worcester.

Among the literally dozens of outstanding and unusual features incorporated within the new Home Office is one of the world's most extensive dictation systems with 195 dictation telephones and recording devices that start and stop with the sound of the human voice alone. A complete emergency light and power system is automatically activated when outside power drops or fails, as it occasionally does during New England storms.

Established in Worcester in 1844, State Mutual—the fifth oldest of the nation's 1,242 life insurance companies — is also the fifth oldest mutual life company, having operated as a mutual company through its 113 years. In assets, it is the 25th largest in the United States. The Company

Seen together at the Worcester County Club luncheon, MBA President John C. Hall of Birmingham, Alabama (third from left), and next to him State Mutual's Richard Wilson, with four MBA past presidents: Milton T. MacDonald, Wilmington, Delaware; Aubrey M. Costa, Dallas; Askel Nielsen, Denver; and William A. Clarke, Philadelphia. In lower photo, left, at the Tatnuck Country Club: Mr. & Mrs. L. Hall Jones, Mr. & Mrs. Martin C. Brooks, and Mr. & Mrs. Donald Sherwood. Also present (top photo, right) at the Worcester Country Club luncheon: George D. Blakeslee, of State Mutual's home office, with Mr. Joseph Weintraub, Mrs. Dwight L. Merriman, Mrs. Weintraub, and Mr. Merriman. And, below, a quartet composed of State Mutual's A. G. Bullock (third from left) with Charles C. Koones, W. R. Cuthbertson and Werner Kiepe.

Connecticut General Life Insurance Company's new home office building is located on a 275-acre tract of rolling land five miles northwest of downtown Hartford. The five-level wing houses the lobby and some administrative and special departments; it is connected to the main three-level building by a glass-enclosed walk-through. The terrace, with its two pools and carved stone benches and large trees, invite noontime relaxation. At right, another views shows the one-story cafeteria wing cantilevered over a reflecting pool and connected to the main three-story work level. The cafeteria has a seating capacity of 800.

is one of *only* 19 life insurance companies licensed to sell in *all* 48 states.

Connecticut General Life Insurance Company

Combining beauty and business, a sprawling, highly functional yet eye-pleasing Home Office building has been constructed by the Connecticut General Life Insurance Company on a rolling 275-acre site in Bloomfield. And so impressive has been the result that the American Institute of Architects has selected it as one of the "Ten Buildings in America's Future," as representative of the newest and most promising in office building design.

The three-story structure is pierced by four interior courts. Two great work areas, the second and third levels of the building, are unobstructed by permanent partitions except for the cores which enclose the mechanical services. These work areas are of clear span construction, completely flexible in layout. A system of movable panels and partitions, unique in its simplicity, provides enclosed space where required and can be readily moved as future needs indicate.

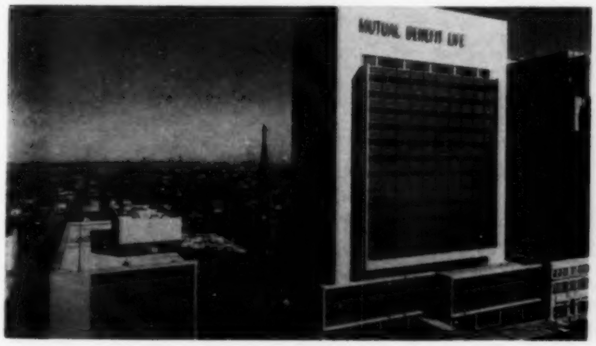
On the second level is located all departments related to individual insurance and at the third level is the group insurance phase of the company's business. All activity not related directly to group or individual insurance has been located in a five-story, 72 by 216 foot, wing to the north of the main building. Here are located the executive offices, securities department, mortgage and real estate and other departments.

Mutual Benefit Life

Likewise pace-setters in contemporary architecture, the Home Office and other new buildings erected in Newark's Washington Park area by the Mutual Benefit Life, combine beauty — inside and out — with the latest advancements in functional design. They meet the needs of the Company's expanding business and provide generous space for anticipated growth. An outstanding addition to Newark's changing skyline, Mutual Benefit's new structures form a keystone in the building pattern of the "new" Newark.

Design of the large office floors is of the modular type, allowing maximum flexibility in the movement of office partitions and utilities. Private offices and conference rooms are constructed of moveable steel and glass partitions. The company's electronic business machines are housed on the second floor, where a unique elevated floor construction permits free movement of the machines within the department. The equipment is specially air-conditioned 24 hours a day. Inter-office communication is handled by a high-speed pneumatic tube system which runs throughout the building at a speed of 25 feet per second.

The 20-story home office building of the Mutual Benefit Life Insurance Company stands at the right front. To the left is the six-story building erected by the company and occupied by the Hospital and Medical-Surgical Plans of New Jersey. Between the two modern buildings is the 100-year-old North Reformed Dutch Church. Photo at right shows the Central Records Department located in the basement of the new home office building. The 27,000 square foot filing area contains about 3 million applications for insurance, 12 million IBM record cards, company cash books, the policy correspondence file, mortgage loan records, security investment records, and records set aside for historical purposes a well as other files.



SERVICING CLINIC

(Continued from page 34)

Handling Escrow Funds—**William J. Stepek,** assistant vice president, The Detroit Bank and Trust Company, Detroit, Thursday; **R. M. Karns,** vice president, Home Mortgage & Investment Co., Oklahoma City, Friday.

Foreclosures — **August M. Strung,** vice president, The Bowery Savings Bank, New York City, Thursday; **Walter P. Rogers,** mortgage officer, The Western Saving Fund Society of Philadelphia, Philadelphia, Friday.

Customer Relations — **William I. De Huszar,** vice president, and treasurer, Dovenmuehle, Inc., Chicago, Thursday; **H. Duff Vilm,** president, H. Duff Vilm Mortgage Company, Inc., Indianapolis, Friday.

Office Management — **Lemuel J. Holt,** secretary, W. A. Clarke Mortgage Co., Philadelphia, Thursday; **Wm. C. Leonard,** vice president and treasurer, Crockett Mortgage Company, Philadelphia, Friday.

Machine Accounting—**Richard E. Delaney,** secretary-treasurer, Percy Wilson Mortgage and Finance Corporation, Chicago, Thursday; **L. C. Forth,** mortgage office inspector, Sun Life Assurance Company of Canada, Montreal, Canada, Friday.

One of the seminars—the "Under $20 Million Club" — has been designed especially to resolve problems for those companies having relatively small operations. Its two Thursday sessions will be led by **Edwin H. Auerbach,** president, Real Estate Financing, Inc., Montgomery, Ala.; and **William T. Bishop,** vice president, Nelson Weaver Mortgage Company, Inc., Birmingham. On Friday the session leaders will be **Mrs. Barbara J. Hoober,** loan servicing manager, Don J. McMurray Co., Omaha; and **Ancel E. Greene,** president, Ancel Greene & Co., Waco, Texas.

Friday afternoon will be devoted to office visitation field trips, during which participants will be able to observe actual servicing operations as practiced by the host firms. Companies to be visited are the Citizens Mortgage Corporation, with an IBM servicing operation; and the First Federal Savings and Loan Association of Detroit, with a Remington Rand servicing operation.

A Thursday evening reception, commencing at 5:30 p.m., will be hosted by the Detroit Mortgage Bankers Association.

The MBA Mortgage Servicing Committee which has developed this Clinic program is under the chairmanship of **A. A. Johnson,** vice president, Colonial Mortgage Service Company, Upper Darby, Pa. **John K. Benoit,** manager, investment records section, Equitable Life Insurance Company of Iowa, Des Moines, is vice chairman of the committee.

PRIVATE HOUSING, 1958

(Continued from page 33)

perience of representative members, covering a sample of 41 of FHA's insuring offices, which I have been permitted to discuss with you.

The survey shows an average processing time of nearly a month (26.5 days) for processing an application for an insured mortgage on an existing property with a range up to more than two months in the worst instances. For processing cases for conditional commitments to builders for new construction, the average time reported is again about a month (29.3 days), and again with some cases running beyond two months' time. To convert the conditional commitment to a firm commitment to the home buyer appears to take on the average another 2½ weeks (18.9 days), with 3 weeks to one month being a common period, and extreme cases running longer. The time reported does not include situations where a subdivision review is called for. These figures are in sharp contrast to the customary one to two weeks taken in handling conventional loans and in fact to the most favorable cases reported in the MBA survey.

This condition represents a real and serious obstacle to a rapid pickup in building, especially when it is borne in mind that the FHA processing is only part—though an important part—of the time required to get a building operation under way. It means that in many parts of the country, a builder, starting now to arrange financing, would be hard pressed to be ready for spring operations. If this is the condition now, what is likely to be the effect of an increase in business such as would be needed to reach the modest levels of activity I have mentioned? The answer, despite FHA's continuing efforts at correction, is likely to be greater congestion and inability to perform satisfactorily.

FHA's problems are several, and, though they are not beyond correction, they are in the main beyond correction by administrative action alone.

» FHA is inadequately staffed to do its job because of the limitations placed by Congress on its ability to spend its own income for administrative purposes;

» Much of the time of its officials is consumed in administering, or attempting to administer, numerous special purpose programs which contribute relatively little to the total of housing activity;

» The FHA examination procedure itself is exceedingly complex and cumbersome, partly because of administrative incrustations and partly because of the statute itself.

The great advantage of the VA guaranteed loan system was its simplicity. And as a result of its simplicity, it was exceedingly responsive to demand when changes in the money market made its rigidly administered rates attractive. Thus in 1954, it almost doubled its 1953 volume of starts and, in 1955, its new house volume rose another 30 per cent.

Under existing circumstances FHA cannot be expected to accomplish such feats. Unless it is quickly able to enlarge its staff and simplify its operation so that it can substantially increase its examining capacity and decrease its examining time, it will indeed do well to raise its volume enough to maintain last year's total production.

If FHA should do no more than this, housebuilding, instead of providing a real stimulus to the economy, would at best be neutral. I do not believe that the considerations I have mentioned have been given sufficient weight in the hopeful view that many have taken of the housing outlook. They are the basis for my own forecast of only a slight increase in the total number of new private dwelling units to be started this year, in spite of my conviction that the market could absorb a good deal more if our mortgage insurance mechanism were effectively energized.

WHAT OTHER MBAs ARE DOING

Louisiana MBA's 10th Annual Meeting Features Full Schedule of Events

The 10th Annual Meeting of the Louisiana MBA was held in New Orleans on Saturday, January 18, at the Roosevelt Hotel. Highlighting the morning session, which included the group's regular business meeting, were three major speeches.

MBA President, John C. Hall, of Birmingham, Alabama, discussed "The Mortgage Outlook for 1958." Richard H. Baker, Jr., assistant vice president, mortgage loan department, New York Life Insurance Company, spoke on the topic: "Economy — Its Relation to Mortgage Loans." And "The Washington Picture Today," was reviewed and analyzed by MBA general counsel Samuel E. Neel.

A cocktail party and luncheon for all registrants was held in the Blue Room of the hotel; and at this luncheon, each of the past presidents of the Louisiana MBA was presented a plaque in appreciation of their services. Presentations were made by the group's newly elected president, Tyler H. Bland, of Alexandria.

During the afternoon the golf courses at both the Metairie Country Club and the New Orleans Country Club were available to those registrants who wished to use them. In addition, all registrants were the guests of the Fairgrounds Corporation foı an afternoon of racing. One feature of these races was a special handicap, "The Louisiana Mortgage Bankers Association" handicap.

Concluding the day's activities was an evening cocktail party and banquet at the Metairie Country Club.

Newly elected president of the Louisiana MBA, Tyler H. Bland, vice president, Rapides Bank & Trust Company in Alexandria, is shown above (seated, right) with other officers: (standing, from left) vice president, David G. Laux, vice president, Standard Mortgage Corporation; senior vice president, W. W. Baltar, III, secretary-treasurer, Baltar Mortgage Company, Inc.; secretary, Lloyd Adams, Lawyers Title Insurance Corporation. Retiring president, John Dane, Jr., Dane & Northrop, is seated at left. Absent from photo is A. K. Northrop, Jr., newly elected treasurer. In photo below are program participants: MBA President John C. Hall; Mr. Bland; Richard H. Baker, Jr., assistant vice president, mortgage loan department, New York Life Insurance Company, New York; MBA general counsel, Samuel E. Neel.

At luncheon in the Blue Room of the Roosevelt Hotel, (photo, above) are eight past presidents of the statewide group: (front row) Louis P. Wolfort, executive vice president, Miller Mortgage Company, Inc. (1956); Robert H. Bolton, president, Rapides Bank & Trust Company in Alexandria, (1952); John Dane, Jr., (1957); T. Hendon Blaylock, president, Blaylock Investment Corporation, (1951); others (top row) are: W. R. McGaw, (1948-49); Clarence A. Legendre, president, Standard Mortgage Corporation, (1955); Robert B. McCall, manager, mortgage loans, Louisiana Fire Insurance Company, Baton Rouge, (1953); A. K. Northrop, partner, Dane & Northrop, (1950). Photo below shows a portion of those attending the evening banquet at the Metairie Country Club, the concluding feature of the full day program.

So. Calif. MBA Holds Symposium

Some 200 mortgage men from Los Angeles and southern California attended Southern California MBA's January meeting, featuring a symposium discussion on the mortgage market outlook and economic picture for 1958. Photo above shows (far left) Vaughn J. Cook, Beverly Hills Securities Company and SCMBA president; and (far right) George Elkins, president, George Elkins Company and SCMBA program chairman; with symposium participants Robert Sutro, president, Ralph C. Sutro Co.; Walter R. Clark, district manager, Pacific Mutual Life Insurance Co.; and Conrad Jamison, vice president, Security-First National Bank.

Gordon Seibert Heads Minneapolis MBA

Gordon D. Seibert, president, Nickels and Smith Company, was elected president of the Minneapolis MBA for 1958, at that group's annual meeting. Other officers elected were: William A. Wilkinson, vice president, Wilkinson Home Finance Company, as vice president; J. Walter Sexton, Northwestern National Bank, as treasurer; and Eldon G. Pritz, The Knutson Company, as secretary.

Eugene R. Locke, First Minnehaha National Bank; William C. Christopherson, vice president, Farmers & Mechanics Savings Bank; and Kenneth S. McCorkindale, Northwestern Mutual Life Insurance Company, were elected governors.

Principal program speaker was Dr. Arthur R. Upgren, professor of economics of Macalester College, who presented his analysis of President Eisenhower's economic report. Gerald P. Uttley, vice president, Minneapolis office, Minnesota Federal Savings and Loan Association, was presented a past president's plaque.

Fred Place Is Named Columbus MBA Head

Fred R. Place, president, Ohio Title Corporation, is the new president of the Columbus Mortgage Bankers Association, for 1958. Other officers elected recently include: Ward C. Case, of W. Lyman Case & Company, vice president; and Joseph C. Link, secretary of Central Savings & Loan Company, secretary-treasurer.

Elected to positions on the association's board of governors were: Karl Kumler of Peoples Mortgage Company, and David C. Morgan of Ohio State Life Insurance Company.

William Blandford Leads Baltimore MBA

Newly elected president of the Baltimore MBA is William W. Blandford, chief mortgage officer, Sun Life Insurance Company. Other officers elected are: vice president, H. Evans Smith, Jr., Walker & Dunlop, Inc.; and secretary, William H. Bayless, Chas. H. Steffey, Inc.

Robert Pease Heads Chicago MBA

Officers of the Chicago MBA for 1958 were elected last month. Robert H. Pease, vice president, Draper and Kramer, Inc., is the new president. He is seated at right, above. Also seated: H. Hoyt Thompson, president, Ward Farnsworth and Co., retiring president; and Paul W. Goodrich, Chicago Title and Trust Company, toastmaster at the CMBA annual dinner meeting. Standing, above: Edward W. Asmus, vice president, Pullman Trust & Savings Bank, new vice president; Helen M. Lawler, executive secretary, CMBA; and Theodore H. Buenger, vice president, Dovenmuehle, Inc., new secretary-treasurer.

Russell L. Davidson, vice president of the Farmers & Mechanics Savings Bank in Minneapolis, retired last December 27, after 36 years of service. For many years, he had been in charge of the bank's mortgage department.

At a reception for all bank employees, Mr. Davidson was honored by remarks of the bank's board chairman, **Henry Kingman,** and by gifts from the bank. MBA Vice President **Walter C. Nelson,** president of the Eberhardt Company in Minneapolis, represented a group of approximately 40 mortgage bankers and presented Mr. Davidson with a leather bound book containing individual letters to him from the loan correspondents of the bank. Mr. Nelson is shown below making the presentation.

A later reception, held on December 30, at the Minneapolis Athletic Club, was attended by Minneapolis and St. Paul area mortgage bankers representing the Bank. Mr. and Mrs. Davidson were presented with a RCA Victor color TV set, a present from loan correspondents of the Farmers & Mechanics Bank throughout the country.

The sixth annual convention of the Florida MBA has been set for May 15-17, in St. Petersburg, **Howard J. Murphy** has announced. More details later.

Martin O. McKevitt has been named head of the Real Estate Loan Department of the First National Bank of Chicago, succeeding **Walter L. Cohrs,** who retired. **Clarke C. Stayman, Jr.** was elected assistant manager.

Jay R. Schwartz, former executive vice president, has been elected president of American Title and Insurance Company by the board of directors, it was announced recently. At the same time, the board elevated **John W. Lamble,** former president, to vice chairman of the board. Mr. Lamble also will continue as president of Reliable Insurance Company and Equity General Insurance Company, both subsidiaries of the firm.

Mr. Schwartz is one of the founders of American Title. He will continue as a senior executive of both Reliable and Equity General. A native Floridian, he is a graduate of the University of Florida law school, and a member of the Dade County Bar Association.

Mr. Lamble began his insurance career with the U. S. branch of the Liverpool and London and Globe Insurance Company, Ltd. In 1929, he assisted in organizing the Fidelity and Guaranty Fire Corporation in Baltimore. He became president and director of the American-Equity Insurance Group, of which American Title is the key company, in 1956.

John W. Lamble

Jay R. Schwartz

Samuel E. Neel, MBA's general counsel in Washington, D. C., was the principal speaker last month at a joint meeting of the Arkansas MBA, the Arkansas Home Builders Association and the Arkansas Real Estate Association. The meeting was held in Little Rock, January 14, in the Continental Room of the Hotel Marion. Mr. Neel discussed the Washington picture as it affects the national housing and finance picture. While in Arkansas, Mr. Neel was presented with the certificate designating him as an "Arkansas Traveler." Mr. C. G. "Crip" Hall, secretary, State of Arkansas, made the presentation, as seen below.

HHFA Administrator **Albert M. Cole,** has announced the appointment of **Robert Tharpe,** president, Tharpe & Brooks, Inc., Atlanta; and **Harry P. Bergmann,** vice president, The Riggs National Bank, Washington, D. C., to the National Committee of the VHMCP. . . . **Robert M. Morgan,** vice president, The Boston Five Cents Savings Bank, has been reappointed to the Committee.

Alfred J. Ruby has been elected treasurer of the Great Lakes Mortgage Corporation in Chicago. He will assume the duties of that office from **Howard Green,** president, who in the past had served in a dual capacity. Mr. Ruby had served as assistant treasurer since May, 1955, when he joined the firm. He is a member of the servicing committee of the Chicago MBA. . . . **Thomas J. Melody** has been appointed a vice president of The Lomas & Nettleton Company in New Haven, Connecticut.

Rohland H. Thomssen, treasurer and joint owner of Clapp-Thomssen Company, St. Paul, Minnesota, was crowned King Boreas XXII of the 1958 St. Paul Winter Carnival in elaborate coronation ceremonies last month. Long active in St. Paul civic affairs, Mr. Thomssen has been identified with the real estate business for the past 47 years. He has been associated with **William D. Clapp** in his present position since 1928, and their firm is now one of the largest realty businesses in St. Paul.

Rohland H. Thomssen

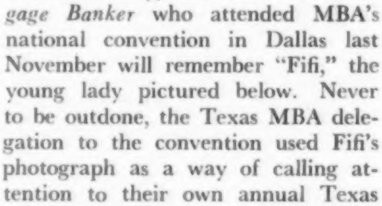
He is a member of eight local, regional and national real estate bodies, including the American Institute of Real Estate Appraisers and the American Right of Way Association. He has been president of the St. Paul Board of Realtors. He is a director of the National Association of Real Estate Boards and has served on the board of governors of MBA. In addition to his position with Clapp-Thomssen Company, Mr. Thomssen is secretary of five allied corporations.

Mr. Thomssen is not the first MBA member to reign as King Boreas. Norman H. Nelson of Minnesota Mutual Life wore the crown a few festivals back.

Thomas A. Walsh was elected vice president of Peoples Bond and Mortgage Co. in Philadelphia, in charge of the Company's servicing office. . . . **Joel Bullard** has been named president of Charles E. Bullard Company, Inc., South Bend, Indiana. **Charles E. Bullard** becomes chairman of the board. . . . Palomar Mortgage Company, San Diego, has announced the appointment of **Carl White, Jr.,** as executive vice president. . . . Tharpe & Brooks, Inc., of Atlanta, announced the election of **Ernest S. Tharpe** as vice president and member of the board in charge of the Columbus, Georgia, office. . . . The management of Service Investment Company of Denver, has announced that **Robert D. Knowlton** has been promoted to the office of assistant secretary of the company.

Announcement has been made by the Board of Directors of the Provident Mutual Life Insurance Company of Philadelphia of the election of **Edward L. Stanley** as vice president and manager, mortgage loans and real estate. **John R. Cannon** has been elected assistant manager, mortgage loans and real estate. A graduate of Williams College, Mr. Stanley joined Provident Mutual in 1937. In 1949 he was elected assistant manager of mortgage loans, becoming associate manager in 1955. He was named manager of mortgage loans and real estate in May, 1957. Mr. Cannon, a graduate of Howard College in Birmingham, Alabama, joined the firm in 1952 as a mortgage loan supervisor in Birmingham, with a five state territory. In 1956 he was transferred to Philadelphia as a home office mortgage loan supervisor.

Undoubtedly, readers of *The Mortgage Banker* who attended MBA's national convention in Dallas last November will remember "Fifi," the young lady pictured below. Never to be outdone, the Texas MBA delegation to the convention used Fifi's photograph as a way of calling attention to their own annual Texas MBA Convention, to be held in Galveston, May 11-13. We publish it here as a further reminder—and a mighty inviting one, at that.



Guest speaker at the January meeting of the Arizona MBA was **Joseph R. Jones,** vice president of the Security First National Bank, in Los Angeles. The Arizona group—and its legislative committee in particular—currently is playing an active role in the sponsorship of certain proposed legislation slated for submission to the present session of the state legislature and which would permit the issuance of deeds of trust as well as mortgages in the state of Arizona.

Monumental Life Insurance Company of Baltimore, Maryland, celebrates its 100th anniversary this year. It does so with a total of insurance in force in excess of one billion dollars, and with assets of over $200 million, announces the Company's president, **F. Harold Loweree.**

Founded March 5, 1858, Monumental Life is the 18th oldest of the 1200 life insurance companies doing business in our country today. It was known originally as the Maryland Mutual Life and Fire Insurance Company.

Although records of the Company's early days reflect the receipt of insurance premiums, the type and amount of policies that were issued cannot be determined. It can be assumed, however, that early in its history its management decided to write life insurance only, for in 1870 the name was changed to Mutual Life Insurance Company of Baltimore.

Within a few years after the Company confined its activity solely to the writing of life insurance, it pioneered a movement in the life insurance industry in America. Company records indicate that it issued the very first life insurance policy in America to be written on a weekly premium basis, on March 1, 1873.

During the Company's early years its growth was a modest one. At the turn of the century the assets did not quite total a quarter of a million dollars; the total life insurance in force had just passed the $2½ million mark.

Paul Crum, president of the 33-year-old Dallas and Fort Worth mortgage banking firm, the M. P. Crum Company, was named the "1957 Mortgage Banker of the Year" by the Texas Mortgage Bankers Association, "in recognition of outstanding service performed in behalf of the mortgage banking industry in Texas." He is a director of the Texas MBA and a member of their executive committee. He was a vice chairman of the 1957 national MBA-FHA committee, and was appointed to serve on the Industry Advisory Committee to the FHA by Commissioner Norman Mason. He has served, too, as a director of the local and state Home Builder's Association and on the National Home Builders Mortgage Finance Committee. For MBA's 44th annual convention in Dallas, last November, Mr. Crum was co-chairman of the gigantic and successful "Western Party."

Paul Crum

Merle O. Dugan, assistant cashier, Mellon National Bank and Trust Company, has been elected president of the Pittsburgh MBA. As vice president, the group elected Charles Sutter, president, United Savings and Loan Association; and as secretary-treasurer, J. Paul Krome, assistant vice president, Provident Trust Company.

Also elected at the group's January meeting were the following directors: Walter Scott, Jr., Scott & McCune; Dave Herrold, Knox-Reilly; J. R. Brady, Lawyers Title Company; Fred L. Aiken, Jr., Aiken Associates; Dave Bishop, J. P. Donovan Company.

The Pittsburgh MBA holds regular Wednesday luncheon meetings at the Pittsburgh Hotel, except during the months of July and August.

George W. Patterson, Jr., was named president of the Institutional Mortgage Co., of California. Mr. Patterson, formerly, was a vice president of Housing Securities, Inc., in New York City. . . . **Donald E. Nettleton,** president, The Lomas & Nettleton Company, New Haven, Connecticut, has announced the appointment to his staff of **Harold W. Stockbower,** former executive secretary of the Voluntary Home Mortgage Credit Program, Region I Committee.

John A. Steel, president of the Transamerica group of fire and casualty companies, has announced the appointment of vice president **A. J. Maguire** of the home office in San Francisco as executive head of the business development program for all companies in the group. Vice president and secretary **William L. Greenway** has assumed full responsibilities for all business development activities of the group in the New England, middle Atlantic and Southern states. In this position, Mr. Greenway will have overall supervision of the field force and agency plant in these areas of the country. The Transamerica group includes Pacific National Fire, Manufacturers Casualty, Manufacturers Fire and Paramount Fire Insurance Company.

The mortgage market being what it *was*—this picture suggests that Ned Bergen, assistant vice president, J. I. Kislak Mortgage Company, Inc. of Jersey City, was preparing to skip the country and get away from it all. Actually, Ned is standing at the rail of the 102-foot "VAGABONDIA III" which the Kislak Organization moored at the hotel headquarters of the New York Savings Banks Convention in Miami and which served as a hospitality ship in place of the usual hotel suite.

Robert L. Davenport has joined Arizona Title Guarantee & Trust Co., Phoenix, in the position of executive vice president. Formerly a vice president of the Valley National Bank, Mr. Davenport will organize and direct a new business development program for Arizona Title. Prior to his moving to Arizona, some 20 years ago, Mr. Davenport was associated for 12 years with the Republic National Bank of Dallas.

Benjamin Rydzewski, Jr. has resigned as Southern California Loan Guaranty Officer for the Veterans Administration to accept a position with Bankers Mortgage Company of California (with headquarters in San Francisco) as vice president in charge of internal operations. Mr. Rydzewski had been chief loan officer for the VA in San Diego since 1956. He recently had been responsible for the VA loan guaranty program in the entire Southern California area.

B. Rydzewski, Jr.

A graduate of the Wharton School of Finance and Commerce, University of Pennsylvania, Mr. Rydzewski started with the Veterans Administration in 1945 as assistant loan guaranty officer in Wilkes-Barre, Pa. Previously he had been a bank examiner for the Commonwealth of Pennsylvania.

PERSONNEL
AND BUSINESS NEEDS

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.